Overview

of the Microcredit Sector in the European Union

Mirko Bendig
Michael Unterberg
Benjamin Sarpong

27. December 2012

European Microfinance Network (EMN)

2010-2011

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Content

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Preface

Even in a thriving economy, the smallest firms often have trouble in obtaining finance. Uncertainty and asymmetric information between the demand side (entrepreneur) and the supply side (financial institution) often create a perpetual structural difficulty for micro- as well as small- and medium-sized enterprises (SMEs). We could even further simplify that: the smaller and younger a company is, the bigger its financing challenge. Without a track record or along standing relationship with a financier, constrained by limited capital or collateral, the young and small companies seldom have an easy time finding the funds they need to grow. In times of crisis, like today, microfinance clients, be it as an enterprise or a self-employed, typically find capital even harder to obtain; not to mention the additional challenges faced by certain vulnerable groups such as ethnic minorities or female entrepreneurs.

Although global economic prospects have gradually improved since 2009, recovery has lagged for smaller enterprises. In fact, recent data for the small business environment suggests that the business expectations continue to worsen and bank finance remains a pressing problem for European SMEs, in particular for micro-enterprises. In this environment, microfinance is an important tool to overcome the effects of the financial crisis and to support sustainable and inclusive growth. This works in Eastern and Western Europe also, despite differences in the microfinance business models and this fact becomes even more obvious with the results of this survey. However, in many areas, the European microfinance market is still a very heterogeneous sector - especially with regard to the diversity of lending approaches. In this context, we welcome the differentiation of lending models, introduced in this study, into micro enterprise lending and social inclusion lending.

To encourage small enterprises and to stimulate economic growth, the European Investment Fund (EIF) enhances access to finance and plays a critical role in stimulating growth of SMEs and micro-enterprises across Europe. In the area of microfinance, the EIF manages resources of different providers, e.g. the European Commission and the European Investment Bank and works with a broad range of financial intermediaries which in turn support the final beneficiaries (micro-enterprises). Our key target group are non-bank microfinance institutions (MFIs), but we extend the range of financial intermediaries also to banks with good outreach to microfinance clients, such as cooperative banks or micro-banks. Over time, we expect that the financing of MFIs will not only focus on enhanced access to finance, but also include more capacity building elements to open up EU financing for smaller non-bank MFIs.

From our perspective, in-depth information is essential in order to be able to support the development of a sustainable microfinance market efficiently and to make microfinance a fully-fledged segment of the European financial sector. In this context, we very much welcome this important "Overview of the Microcredit Sector in the European Union for the Period 2010 – 2011", both as a transaction manager and from a market research perspective - and we are happy to support this key publication on microfinance.

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Executive Summary

What is new in this survey's edition?

For the first time the fifth edition of the Pan-European overview report on the microcredit sector in the European Union for the period 2010 – 2011 covered widely Non-EU member states in Eastern Europe including all potential EU candidate states. The comparability of the overall data to previous editions of the survey is therefore limited, but still possible for the EU member states data.

Compared to past editions this survey put a special emphasis on gathering and analyzing data from the EMN membership base and the most active and visible organizations in the sector. Therefore, a set of key microfinance institutions (MFIs)[1] was selected that were surveyed in more detail.

Just as the previous edition and to point out specific sector trends, this survey distinguishes microloans due to the following definitions:

- **(Business) microcredit (EU definition)** is a loan under 25,000 EUR to support the development of self-employment and microenterprises.
- **Personal microcredit** is a loan under 25,000 EUR for covering client's personal or consumption necessities, such as rent, personal emergencies, education, and personal consumption needs (e.g. white goods).

If the term "microcredit" or respectively "microloan" is used in general here, it includes both definitions, i.e. for business/entrepreneurial and personal consumption purpose. Otherwise, it is separately referred to the purpose of the microloans examined.

Another new aspect of this year's edition of the survey is a strong focus on identifying institutional blueprints and lending models in European microcredit provision. With the sector developing for more than 20 years in Western and Eastern Europe and the number of loans provided by dedicated microfinance organizations being as high as never before, the need for cross-country observations of institutional success factors is more evident than ever.

Another important aspect is the differentiation of general lending models of the European micro-lending activities. Therefore, this edition of the survey proposes for the first time a definition for a differentiation of the lending activities into two categories: (1) microenterprise lending and (2) social inclusion lending. This differentiation is seen as a first step towards a more focused discussion on institutional blueprints and lending models for microfinance in Europe.

Just as the previous edition, the accepted EU definition of microloans was used here as a guideline in the questionnaires. Nevertheless, some MFIs have indicated loans higher than the respective 25,000 EUR, which have been included here to present a complete picture of the microfinance activities used in the European sector.

Scale of the sector

Within the 32 countries covered by this iteration of the EMN Overview survey 154 out of 376 MFIs have provided data to the survey, which equals an overall response rate of 41 percent. The 376 organizations

1 The characteristics that qualified an organization as key MFI were mainly an EMN membership and/or the reward of EU funding or technical support via JASMINE or Progress.

contacted for the survey are already a selection of the organizations that provide microcredit of some form in the countries covered. The total number of these organizations can only be estimated and should range between 500 and 700 entities, not taken into account credit unions and commercial banks,which provide loans below 25,000 EUR for entrepreneurial means as part of their standard loan provision.

Many of these entities are known to be very small and to provide less than ten loans a year. There are many foundations and municipal organizations offering small loans to tackle over-indebtedness and usury. In countries such as Poland, Bulgaria and Romania local credit unions give out small loans to their members that are often used for entrepreneurial means.

From a methodological perspective, it is not feasible to include all these small organizations into a common survey framework, because of the different level of available data. Therefore, this year's iteration of the survey focused on organizations which are providing loans up to 25,000 EUR in the framework of dedicated microcredit products and distribute them on a larger scale. 78% of the organizations that provided data on their lending activity in 2011 distributed more than 20 loans in that year, 69 percent more than 50 loans and 54 percent more than 100 loans.

In 2011, all MFIs covered disbursed a total of 204,080 microloans with a total volume 1,047 million EUR[2]. The organizations based in EU member states reported 122,370 loans with a total volume of 872 million EUR. Compared to the results of the survey for the years 2008 and 2009 this marks a rise of 45 percent in the number of loans and 5 percent in the total volume (compared to 2009). The average volume of the loans disbursed in 2011 was 5,135 EUR. In the covered EU member states the average volume was 7,129 EUR which is a decrease compared to the result from the previous edition (2009: 9,641 EUR).

Furthermore the average loan size per country deflated by the GNI per capita (per country) to correct for national income differences, as average loan sizes were used as proxies for the measurement of outrech[3].

Between 2010 and 2011 the reported number of loans disbursed in the covered EU member states rose by 24 percent, the highest increase in the history of the EMN survey.

The years between 2009 and 2011 saw a steep rise in the numbers of loans provided in certain countries. In Germany the number of reported loans increased by 40 percent to 11,231 in 2011, in Poland by 43 percent to 23,732, in the Netherlands the number even increased by 75 percent to 1,000 in 2011.

In all three cases the increase referred to the introduction or development of a national scheme for microcredit provision. In Germany a new public funded national scheme started in 2010, in Poland a former NGO was transferred into a bank and in the Netherlands a national provider that already started in 2008 intensified its activities further.

The highest increase can be observed in Spain with a boost of 560 percent to 36,118 microloans in 2011, although the main share of this increase is taken by personal loans given out by one institution[4]. Limited to business loans the increase still amounts to 73 percent compared to 2009.

The inclusion of "personal microcredit" into the survey was established in the previous edition of the survey. The overall share of personal loans in the lending activity of EU-based organizations amounts to 26 percent, although without Spain the share is only 7 percent.

In most of the countries covered micro-lending activity takes place in a market with a more or less developed banking sector that also serves the volume range of below 25,000 EUR as part of their general loan activity targeted to small enterprises. Exact numbers of the scale of microcredit provision by commercial banks are not available since these institutions serve microcredit clients as a mere sub-set of their regular clients. The European Savings Banks Group provided data about the microloan disbursement for a few selected countries and institutions. For instance, the Spanish savings bank issued overall 34,710 microloans for personal or business purpose with a volume of 223 million EUR in 2011. For instance, the numbers for the activity of credit unions are only available for Romania, as UNCAR reported an estimated number of 96,000 loans for business purposes in 2011.

Key findings

Scale of the sector

- This survey edition focused on MFIs providing loans up to 25,000 EUR on a larger scale. Around 54 percent of MFIs surveyed issued more than 100 microloans in 2011.
- There is a consolidation and growing trend of the microfinance provision scale in the EU in 2011, compared to 2009.
- This trend is prevalent due to an increasing provision of microloans in certain EU countries, e.g. Germany or Poland.

2 This includes microloans issued for personal consumption purposes.
3 See e.g. Cull et al. (2007).
4 The number of microloans issued in Spain is particularly related to the activities of one banking institution. This organization provides mostly personal microloans, but as well business microloans. Hereby, the institution separates clearly between personal loans for disadvantaged populations groups and microloans used for entrepreneurial and business purpose. In additon, the institution cooperates with social and public entities as well as uses its own network of branches for the distribution of loans, which enables the institution to gain scale in its micro-lending activities. It is important to note here that the rest of the microfinance sector is struggling to survive due to the lack of funds (related to the financial and economic crisis).

Client outreach and social performance

The data collection on the outreach to specific target groups and social performance indicators remains so far scarce. Many organizations were not able to provide specific data on the target groups they disbursed their loans to. This is connected to the finding that microfinance organizations active in Europe are mainly focused, in order of importance, on creating jobs, promoting microenterprises and SMEs, the financial and social inclusion of excluded people, poverty reduction and to a lesser part to the empowerment of specific target groups like women and ethnic minorities.

Based on the data reported every third microloan is directly addressed to support a startup business. In Western European countries, this share is especially high. For instance, around three quarter of the microloans were disbursed to startups in Belgium, Austria and the Netherlands.

Women continue to be underrepresented as a target group, but to a lesser extent than in the previous editions. In 2011, 38 percent of all microloans were disbursed to women, an increase of 11 percent compared to the survey in 2009. Ethnic minorities and immigrants[5] were targeted in a similar extent as in 2009 (with 13%); only 12 percent of the microloans were disbursed to ethnic minorities or immigrants in 2011.

Clients below the poverty line[6] are also targeted, although by only 13 percent of all lending activity in 2011. The amount of micro-lending that is targeted to rural population sank compared to the last edition of the survey, in 2011 only 17 percent of loans disbursed were issued to persons living in rural areas.

Based on some key characteristics of microloan provision[7] like the shape of the main client group and the average volume of the loans provided, the survey proposes to differentiate two general lending models regarding micro-lending in Europe: (1) microenterprise lending and (2) social inclusion lending.

Organizations that implement the lending model of microenterprise lending tend to focus on the upper end market of microfinance, providing loans to bankable or nearly bankable microenterprises that have difficulties accessing loans up to 25,000 EUR from commercial banks due to risk aversion or lacking liabilities. The average volume of the provided loans is markedly higher than in the model of social inclusion lending, meant to support the start or stabilization of microenterprises with a growth perspective.The maximum loan sizes go up to 25,000 EUR (or even higher in some cases).

Social inclusion lending on the other hands focuses on lending to self-employed individuals that are excluded from banking services, due to their socio-economic status of being socially excluded or (long term) unemployed and/or belonging to financially excluded population groups like ethnic minorities or young people. The average loan sizes are relatively low, meant to support basic income creating activities.

Following this definition 37 percent of the organizations reporting average loan volumes in the survey can be classified as microenterprise lenders and 63 percent as social inclusion lenders. The dominant lending model of an organization seems to be connected to the number of loans the organization disburses per year. From the ten organizations that reported the highest numbers of loans disbursed in the covered EU member countries eight fit the characteristics of social inclusion lending.

Key findings

client outreach and social performance

- The availability of data for client's outreach and social performance is still limited among the MFIs covered in Europe.
- The emphasis of the MFIs' mission statements is on job creation, microenterprise or SME promotion, while the empowerment of specific target groups, such as immigrants, is followed to a lesser extent in the sector.
- Based on calculations using the average loan size, this edition showed that the most prevalent lending model is social inclusion lending (62 percent; microenterprise lending accounts for 38 percent)

Institutional diversity

Over the past years a broad range of institutional types of European microcredit providers developed. This diversity is often seen as a hindrance for the further development of the microfinance sector.

The survey results show that the institutional diversity is still existent with religious institutions, governmental bodies, savings and commercial banks, credit unions, cooperatives, Community Development Financial Institutions (CDFIs), microfinance associations, non-bank financial institutions, and Non-Governmental Organizations

5 For the purpose of this survey, "ethnic minority" refers to those individuals who are not a member of the national majority ethnic group. Their style of life and origin can differ from the majority. They may come from migrant, indigenous or landless nomadic communities. Immigrants are those individuals, not born in the country of residence. This definition was highlighted in the online survey tool.
6 For the purpose of this survey, "poverty line" refers to those individuals whose income is 60% or less of the median household income.
7 Social inclusion lending covered lending activities featuring an average loan volume of up to 33% of the Gross Natinal Income (GNI) in countries with a GNI of more than 20,000 EUR and up to 66% in countries with a GNI of below 20,000 EUR.

(NGOs) or foundations active in microcredit provision. Similar to the previous editions, the distribution in the year 2011 among the institutional types shows that the highest shares of institutions are still found among NGOs or foundations (22%, 2009: 26%) and microfinance associations (20%, 2009: 16%).

Looking at the organizations with the highest lending activity in the EU member states in 2010 and 2011 it becomes clear that institutional variety is more limited for organizations with a high number of loans provided. There are two differing institutional blueprints that can be identified as the dominant institutional types for micro-lending on a greater scale.

The first blueprint is to provide microloans as a bank (including promotional banks) with a specific microcredit program that is profit oriented and dedicates its activities 75 up to 100 percent to the provision of financial services.

The second typical EU-based blueprint is to organize the MFI as a non-banking financial institution or microfinance association that is not-for-profit and concentrates its business activities 75 up to 100 percent on the provision of microcredit.

Key findings

Institutional diversity

- The European microfinance sector is still characterized by a wide range and diversity of institutions active in the market.
- The highest shares of institutional types prevalent are the NGOs or foundations, as well as the microfinance associations.
- Two institutional blueprints for micro-lending can be identified: (1) bank with a specific microcredit program for profit, versus (2) non-bank and non-for-profit organisation specialized on micro-lending.

Geographical diversity

The geographical distribution of organizations that participated in the survey shows an overrepresentation of organizations from Western Europe. Out of 154 organizationsthat contributed data to the survey, 56 organizations from Eastern Europe participated[8]. Compared to the previous edition of the survey the share of organizations from the Eastern part of Europe increased slightly (from 32% to 37%) although this includes 22 organizations from Non-EU member states that were not covered by the previous survey.

Organizations from Western European countries reported 84,561 (41% of all loans reported) in 2011, equivalent to 680 million EUR (65% of the total volume reported), whereas in the Eastern European countries the total number of loans reported amount to 119,519 (59% of all loans reported) for the equivalent of 368 million EUR (35% of the total volume reported).

The total number of loans reported from Eastern European EU member states amount to 37,395 loans with a volume of 187 million EUR which accounts for 31 percent of total loan numbers in the EU and 21 percent of total volume. This distribution is similar to the results of the previous survey of Eastern European EU member states that observed shares of 26 percent (number of loans) and 40 percent (volume of loans).

The average number of loans per institution in Western Europe amounts to 1,226 loans, in Eastern Europe (only EU member states) it was 1,575. The average number for all Eastern European organizations in the survey was 2,390 loans.

Key findings

Geographical diversity

- Western European MFIs are still overrepresented in the survey; share of Eastern European organizations is 37 percent.
- The distribution of number of loans (respectively value) disbursed of the previous edition is confirmed between Western and Eastern EU member states.
- The average number of loans per institution is significantly higher in Eastern EU member states than in their Western counterparts.

Products and services

The products and services offered by the surveyed organizations cover a broad range of loan products, additional financial services and support services for consumer finance and entrepreneurial activities.

The standard product of the surveyed organizations is a microloan that is provided for entrepreneurial purpose. All organizations offer such a product and 47 percent of the organizations that provided information do not offer any other product.

The terms of the offered loans vary with "individual loan" being the most widespread (92%) way of provision. The average interest rate is 11 percent ranging from 4 percent in countries like France, Italy and Austria to interest rates of around 20 percent and higher in Balkan states like Albania (18%), Bosnia (24%) and Serbia (35%). The spread of average loan durations is similar, being the longest in countries with low average interest rates and high average loan volumes like Austria (60

8 Not included in this number are the 2,000 Romanian credit unions that provided overview data on their activities via their association UNCAR.

months), Hungary (51 months) and Netherlands (52 months). The shortest loan terms can be observed in Serbia (20 months), Bosnia and, surprisingly, Belgium (14 months).

Lending by microfinance organizations is not limited to enterprise and business loans. One third (34%) of all the surveyed organizations that provided information on this issue additionally offer personal microloans to their clients. In some organizations this product has become the most demanded form of loan product, especially in Spain and Italy and mostly due to the impact of the crisis and risk aversion behavior of commercial banks. The provision of other microfinance products like saving products (17%) and (micro)insurances (9%) is still not widespread, partly due to restrictive banking regulation.

Every tenth organization provides other traditional banking services besides micro-lending like investment loans, savings, mortgages or current accounts, while 52% offer some form of support services for entrepreneurial activities either in the form of entrepreneurship training or dedicated business development services (BDS). The BDS is mostly offered to clients as an additional service. Only 20% make it mandatory, either for some clients or all.

Key findings

Products and services

- Microloan for entrepreneurial means is still the standard product in the sector.
- Support services for entrepreneurial activities are an important additional offer for organizations that target start-ups and microenterprises.
- Average loan terms (interest rates and loan duration) differ between Western and Eastern Europe.
- Provision of personal microloans increased markedly in some countries.

Financial performance

The annual reporting of financial performance indicators is becoming more important in the sector thanks to growing data requirements by funders and public authorities. The Code of Good Conduct initiative of DG Regio (see below) has also contributed to this trend. Nevertheless, the survey showed great disparities in the availability of this kind of data. Small organizations still struggle to produce basic indicators and different national definitions on central indicators are adding to the diversity of the sector. Therefore, the results of the survey are based on a limited set of responses.

73 percent of all MFIs surveyed track their portfolio quality via any portfolio at risk (PAR) ratio. This outcome makes clear that the sector develops further, so that reporting standards, in this case for the portfolio quality, are applied by the majority of micro-lending institutions. In 2011, the average portfolio at risk (30 days past due) over all countries was 12 percent, i.e. four percentage points lower than 2009. In the covered EU member states the average portfolio at risk was 15 percent, three points higher than among all countries covered. In addition, the average write-off ratio[9] was six percent in 2011 for all countries covered, i.e. 3.5 percentage points lower than 2009, and seven percent on average for the EU member states covered.

Key findings

Financial performance

- Data availability on financial performance indicators is still limited.
- Diversity of definitions between countries and institutions.
- Portfolio at risk and write-off ratios decreased compared to 2009.

Policy development

The political attention on the sector was high in the past two years, especially in Western Europe where microfinance was positioned as an important tool to counteract the effects of the ongoing crisis on job creation and access to finance. At the EU level the European Commission was very active with the development of a Code of Good Conduct as the central policy measure. The code is proposed as a tool to safeguard the quality of microloan provision throughout Europe and will be central to the future activities in the framework of the JASMINE program. 75% of the organizations in the survey have knowledge of the code and out of these 76% plan to implement the code on some level of their organization.

At the national level the development of legal frameworks for microfinance provision was one of the main issues over the past two years and will continue to influence the sector with new or revised frameworks being announced in Italy and Spain. The uncertainty on the future shape of the legal environment for micro-lending in these countries clearly affects the possibilities for strategic planning of MFIs.

Outlook of the sector

Based on qualitative interviews with representatives of key MFIs and public authorities the future challenges and trends in the sector were identified.

9 Write-off ratio refers to the quotient of the value of loans that recognized as uncollectible during period and the average gross outstanding portfolio during period (in percentage).

The past years saw a series of innovation in institutional forms and adaptations to legal requirements at the national level, e.g. in Germany where a sophisticated model of bank-MFI cooperation was established to realize microcredit provision on a broader scale despite a limiting national regulation on loan provision. In Poland a long-existing non-bank institution was transformed into a full fletched microfinance bank resulting in a strong increase in the number of loans disbursed. The observation of institutional innovation in some countries' microfinance sectors is on the other hand embedded in the bigger picture of solidification of institutional blueprints in the European sector for microcredit provision on a bigger scale. It can be expected that the existing differentiation into bank institutions and non-bank institutions will further shape the institutional development of the sector. With this consolidation of institutional forms for microcredit provision there should be a growing potential for peer exchange on organizational preconditions for growth in microfinance activities in Europe.

The impact of the ongoing financial and economic crisis in Europe on microfinance activities was a central issue in the outlooks that representatives from MFIs voiced in the qualitative interviews. At the level of the general supply of microfinance in Europe, commercial banks are expected to further reduce their lending to excluded people as well as to small start-ups and microenterprises. From the viewpoint of the MFIs this is an opportunity to strengthen their outreach and to position microfinance as a complementary offer to commercial bank lending in European countries. Therefore, new alliances for client referral and integrated services between banks and MFIs are seen as a possible trend in the near future.

At the level of the demand for microfinance the rising number of unemployed people, especially in the Southern European countries, should allow MFIs to grow their operations. As many young, well educated people are now looking for alternatives to employment, a rise in self-employment figures is predicted in many countries. For a lot of MFIs this target group is new compared to that of excluded people or existing microenterprises. It is not yet clear how this growing focus on job creation through microfinance will influence the outreach of European microfinance to socially excluded people without access to the formal financial sector. It will remain an important task of the sector in the coming years to balance these missions and develop transparent ways to measure its outreach to the different target groups of microfinance.

With the growing importance of online applications in financial services, microfinance providers also see the need to adapt to this new distribution channel. Some microfinance organizations already started to implement online applications for their loans. The emergence of peer-to-peer lending platforms and other online based financing offers for consumers and self-employed persons will further diversify the market for small volume finance and challenge the business model of existing microfinance providers. The broad availability of new technologies for communication and service provision on the other hand creates new opportunities for the sector to support their clients e.g. with e-learning offers on entrepreneurial and financial literacy issues or mobile banking services that are already successful in developing countries.

The general public support for microfinance provision is expected to decline in the coming years, due to budget restrictions and high deficits at national and regional levels. MFIs prepare to react to this with developing more efficient and lean processes as well as by reducing the costs involved in providing microloans for entrepreneurial means.

Many of them are already looking for additional sources for funding. Yet, finding suitable funding is still a challenge for most European microfinance organizations. Especially fast growing organizations report a need for additional equity to secure lending operations and to collect funding at the formal financial market. The existing EU funding instruments are used widely by larger MFIs, but are reported to be of limited use to support small organizations to realize a substantial growth in operations. With the new funding period coming up in 2014, MFIs are anticipating a reduced availability of dedicated EU funds for microfinance. In the same time MFIs from candidate countries in Eastern Europe are looking forward to access EU funding instruments in the future.

With the outlook of limited future public funds for micro-lending activities a further diversification of microfinance products and services is on the agenda of many social inclusion lending organizations in the sector. The main focus lies on savings products as well as other products and services that allow financially excluded persons to ease the cash-flow of their households and to build up financial assets.

Key issues

for developing further the sector:

- Wide implementation of the EU Code of Good Conduct for microcredit provision into practice,
- Overcome the uncertainty on the future shape of the legal framework for micro-lending in specific countries,
- Consolidation of institutional types for microcredit provision via the identified blueprints),
- High potential to establish microfinance more as a complementary offer to commercial bank lending due to rising demand and the consequences of the econonomic and financial crisis,
- Use the potential of the growing market of online and mobile applications in financial services,
- Identify additional sources for funding and develop more efficient and lean processes for microloans provision due to the expected declining public support due to budget restrictions in the upcoming years.


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Introduction 1

In recent years, the provision of microcredit has gained political attention as an efficient and effective policy instrument for social inclusion, employment and economic development in the European Union (EU). The European Commission (EC) and the EU member states have provided a substantial amount of funding through instruments like JASMINE[10] and the European Progress Microfinance Facility (EPMF) as well as the allocation of structural funds to support the provision of microcredit. Despite all these activities a bottle neck for the development of the sector still remains: the establishment and growth of sustainable microfinance institutions (MFIs) which are able to deliver microloans to the different target groups on scale[11].

In the context of this development the need for reliable and comparable data regarding the financial performance and socio-economic impact of the EU microfinance sector is growing. The key audience for such a data collection consists of policy makers and investors at European, national and regional level. But also other stakeholders such as academics, consultants, journalists and the practitioners in the MFIs are more and more interested in quantitative data of the sector to benchmark the different lending approaches among peer groups. Existing online data hubs like MIX Market – covering mostly the international microfinance scene – are not able to provide this kind of information for the majority of MFIs in the EU. The European microfinance sector is too heterogeneous and (especially Western) European MFIs tend to be small organizations with specific microfinance approaches that are fitted to national socio-economic and legal frameworks. However, the MFIs in Eastern Europe are traditionally more inspired by the international microfinance movement focusing of a sustainability approach and scaling-up of the micro-lending actitivities.

Having that in mind, evers & jung facilitated in 2012 the fifth edition of the EMN survey covering the time period 2010 – 2011. The objective of this edition is to produce a consistent picture of the different microfinance activities, the market segments and the active and to compare the performance of European MFIs based on their organizational forms which characterize the sector. Therefore, for the first time this following edition covered widely Non-EU member states in Eastern Europe including all potential EU candidate states[12]. The comparability of the overall data to previous editions of the survey is therefore limited but still possible for the data for the included EU member states.

Compared to the past editions, this survey put a special emphasis on gathering and analyzing data from the EMN membership base and the most active and visible organizations in the sector. Therefore, a set of key MFIs[13] was selected that were surveyed in more detail.

Another new aspect of this year's edition of the survey is a strong focus on identifying institutional blueprints and lending models in European microcredit provision.

10 JASMINE (Joint Action to Support Microfinance Institutions in Europe) is a technical assistance initiative developed by the EC, the European Investment Bank (EIB) and the European Investment Fund (EIF) to provide effective support for the promotion of microcredit in the EU.
11 Jung et al. (2009).
12 In previous editions of the survey data was only included from Croatia and EFTA.
13 Characteristics that qualified an organization as key MFI were mainly an EMN membership and/or the reward of EU funding or technical support via JASMINE or EPMF.

With the sector developing for more than 20 years in Western and Eastern Europe and the number of loans provided by dedicated microfinance organizations being as high as never before, the need for cross-country observations of institutional success factors is more evident than ever to support the sustainable development of the sector. However, the development from the start of microfinance with the first experimentations to the creation of sustainable business models is still going on.

Since then an improvement is that institutional capacity building has already been addressed through JASMINE and various activities of European network organizations such as the EMN. As part of the JASMINE initiative a Code of Good Conduct (CoGC) has been developed to define good practice standards for the provision of microcredit in the EU. The aim of these CoGC is to increase the institutional capacities of MFIs, to improve the quality of the microcredit provision to clients and to enable the sector to attract additional funding from potential (private) investors.

Another important aspect is the differentiation of general lending models in European microfinance. Together with its institutional diversity, the variety of lending approaches that fit into the EU definition of microcredit provision obscured past overviews of the sector. This edition of the survey therefore proposes for the first time a definition for a differentiation of the lending part of microfinance activities into two categories: (1) microenterprise lending and (2) social inclusion lending. This distinction should be seen as a first step towards a more focused discussion on institutional blueprints and lending models for microfinance in Europe.

In addition, the effect of the still ongoing economic and financial crisis in Europe is taken into account. For instance, there is a stable or respectively rising demand for microcredit in several countries, as microloans have been even now acknowledged as an efficient and effective policy instrument for social inclusion, employment and economic development.

Furthermore, in the fifth edition of the survey the structure of the questionnaire has been changed and significantly shortened to ensure a high response rate. The financial indicators were aligned with the financial reporting standards published in the CoGC. Even though these questions had a low response rate to other sections of the survey, the use of these indicators increased over the years, which foster the further development to more standardization in the microfinance sector analogous to the international microfinance movement. Nevertheless, there is still scope for further methodology and usability advancement of this survey section for future edition.

2 About the Survey

This is the fifth edition of the Pan-European overview report on the microcredit sector in the EU for the Period 2010 – 2011[14]. As a basis an exhaustive survey was conducted among active micro-lending institutions. Although intended, the data collection will not be entirely complete due to budget constraints, a new collection procedure and relatively low response rates in the previous surveys.

Many of the MFIs prevalent in the European market are known to be very small and to provide less than ten loans a year. There are several foundations and municipal organizations offering small loans to tackle over-indebtedness and usury activities. In countries such as Poland, Bulgaria and Romania, local credit unions[15] give out small loans to their members that are often used for entrepreneurial or business means.

From a methodological perspective, it is not feasible to include all these small organizations into a common survey framework, because of the different level of available data. This year's iteration of the survey therefore focused on organizations, which are providing loans up to 25,000 EUR in the framework of dedicated microcredit products and distribute them on a larger scale.

The fifth edition is the first that collected the respective data via an online survey tool only ('SurveyMonkey') and especially divided the data collection into two analytical strands. First, a simplified questionnaire (called 'basic' or 'all MFIs without key MFIs') version for a clean quantitative sector overview was developed. For this, over 250 MFIs were first collected and then contacted with geographical coverage of the EU, European Free Trade Association (EFTA), EU candidate and other European countries. Second, an extensive questionnaire (called 'extended' or 'key MFIs') version was created for a quantitative in-depth analysis with the scope on the two up to three largest/key MFIs in each country (118 contacted institutions). Herewith, mostly the EMN members, JASMINE and EPMF supported or funded MFIs, as well as respective key MFIs in the different countries were covered. Within both survey strands all listed institutions were contacted using a non-random sampling approach. Due to this data collection approach, the representativeness of the data is limited to estimate the size of the total European microfinance market.

Subsequently, the two strands were merged to gain a heterogeneous basic population and therewith a preferably broad overview of the microfinance sector in Europe. Within the 32 countries covered by the survey 154 out of 376 MFIs have reacted to one of the two questionnaire versions (in the data collection period from mid of April until the mid of July), which equals an overall response rate of 40 percent (Table 1). The list of the participating institutions is presented in Table 19 (in Appendix). The response rate for the basic version for all MFIs without key MFIs is 32 percent and for the extended version for the key MFIs is 53 percent. In absolute terms, this represents a slight decrease of the survey participation compared to the previous one. The same is true in relative terms for the questionnaire version for all MFIs without key MFIs (39 percent in the previous survey edition). Remarkably, the response rate among the identified key MFIs is significantly larger than in the previous edition, i.e. every second key MFI took part in the survey, which was one of the major objectives of the EMN for this edition.

14 The last three editions were carried out by Fundación Nantik Lum as the coordinating institution, while the first survey of the sector were undertaken by the new economics foundation (nef) on behalf of EMN. The coverage of the current and the three previous surveys are displayed in Table 1. The first edition by nef covered the years 2002 and 2003 with 32 participating organizations.
15 In Romania, nearly 2,000 individual credit unions are members in the association called UNCAR.

The figures and numbers presented here in this survey edition are exclusively related to the data collected via the covered 154 MFIs. Additional information according to other data sources, for instance from other market studies, were not taken into consideration in the presentation of the survey data, but were included in the respective country profiles. Furthermore, the data from other market studies were mostly published on an aggregate level, so it was not possible to merge the information for all questions analyzed here.

The 32 countries covered do not include all EU member states, only 18 member countries were covered, as in a few countries respective MFIs were not identified, were not active or the contacted MFIs did not participate in the survey. The following list shows the non-participating EU-member states:

1 Cyprus
2 Czech Republic
3 Denmark
4 Estonia (contacted)
5 Greece (contacted)
6 Luxembourg
7 Malta
8 Slovakia (contacted)
9 Slovenia (contacted)

In addition, this edition has covered MFIs from countries, which were not part of the previous surveys, i.e. Albania, Bosnia-Herzegovina, Moldova and Serbia. For the first time micro-lending organizations were contacted in Montenegro and Turkey as well, but none of these took part in the survey.

Nevertheless, it is important to note that the majority of the MFIs were not able to fill out the whole questionnaire, so that there exists respective lower response rates for specific questions, especially for the more complex or time consuming questions (e.g. portfolio at risk). This is not a new issue, as in the previous surveys the response rates decreased among these questions significantly, which might be traced back on the high number of very small micro-lending institutions in the European Microfinance sector.

However, in exceptional cases the organizations were allowed to complete the questionnaires in Microsoft Word or PDF format. However, this edition ensures that the institutions were getting used to the online-format, even though there is large scope to improve certain features and the overall practicability of the questionnaires. As not all questionnaires were filled out completely by the participating institutions, the number of cases were reported in all tables and figures here. In the case that response rates were very low, this is indicated in the text as well.

The accepted EU definition of microloans as loans of 25,000 EUR or less issued for business or entrepreneurial purpose was used here as the guideline in the questionnaires. Nevertheless, some MFIs have indicated loans higher than the respective 25,000 EUR, which have been included in the survey to present a complete picture of the microfinance activities used in the European sector. In addition, to point out specific sector trends, the differentiation and especially the shares between microloans for business, but as well for personal consumption were introduced in the questionnaires.

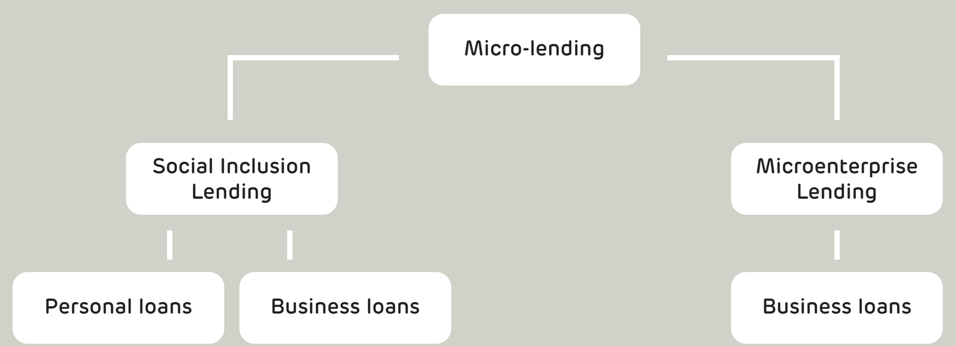
- **(Business) microcredit (EU definition):** is a loan under 25,000 EUR to support the development of self-employment and microenterprises.

- **Personal microcredit:** is a loan under 25,000 EUR for covering client's personal or consumption necessities, such as rent, personal emergencies, education, and personal consumption needs (e.g. white goods).

If the term "microcredit" or respectively "microloan" is used in general here, it includes both definitions, i.e. for business/entrepreneurial and personal consumption purpose. Otherwise, it is separately referred to the purpose of the microloans examined. Figure 1 represents the classification of microcredit definitions in use related to the above introduced typology of lending models:

Figure 1

Classification of microcredit definitions related to lending model types



Source: Own illustration.

In addition to the analysis of quantitative data, the overview report will also feature qualitative information about the sector and its framework conditions. To improve the quality of the gathered data and to continue an important element of the organizational structure of the past surveys, NCs were identified in selected countries for facilitating qualitative interviews with key MFIs and national academic experts. The interviews based on an interview guideline covering issues of legal regulation, support structures for (micro-) entrepreneurial activities, funding possibilities for microfinance as well as future trends and challenges for the sector. Based on these interviews, country profiles were created by the NCs, see Section 8.

Table 1

Overview of the survey coverage by country in comparison to previous editions

N°	Country	2010/2011		2008/2009		2006/2007		2004/2005	
		Contacted	Participated	Contacted	Participated	Contacted	Participated	Contacted	Participated
1	Albania (potential candidate)	5	5	0	0	0	0	0	0
2	Austria	1	1	1	0	1	1	1	0
3	Belgium	6	2	4	4	5	4	4	2
4	Bosnia-Herzegovina (potential candidate)	17	8	00	0	0	0	0	0
5	Bulgaria	33	8	66	16	5	5	0	0
6	Croatia (candidate country)	2	2	2	2	0	0	0	0
7	Cyprus	1	0	1	0	1	0	0	0
8	Czech Republic	0	0	3	0	0	0	0	0
9	Denmark	0	0	1	0	0	0	0	0
10	Estonia	1	0	1	1	0	0	0	0
11	Finland	1	1	1	1	1	1	1	1
12	France	9	9	14	6	8	4	5	2
13	Germany	70	33	25	16	34	11	20	9
14	Greece	1	0	0	0	0	0	0	0
15	Hungary	31	15	55	21	6	4	2	20
16	Ireland	1	1	1	1	1	0	2	1
17	Italy	34	14	94	33	40	27	9	9
18	Latvia	2	1	2	2	0	0	0	0
19	Lithuania	3	1	2	2	1	0	0	0
20	Luxembourg	0	0	9	0	0	0	0	0
21	Macedonia (candidate country)	4	3	1	0	0	0	0	0
22	Moldova	3	2	0	0	0	0	0	0
23	Montenegro (candidate country)	3	0	0	0	0	0	0	0
24	Netherlands, the	7	1	16	4	6	6	0	0
25	Norway	2	1	2	2	1	0	1	1
26	Poland	5	1	5	1	5	1	5	3
27	Portugal	2	1	7	2	1	1	1	1
28	Romania	14	9	18	9	9	5	0	0
29	Serbia	5	1	0	0	0	0	0	0
30	Slovalda	3	0	4	0	2	1	2	2
31	Spain	62	13	53	20	40	9	61	32
32	Sweden	5	1	6	4	2	0	2	2
33	Switzerland	1	0	1	1	1	1	1	1
34	Turkey (candidate country)	2	0	0	0	0	0	0	0
35	United Kingdom	40	20	37	22	38	13	22	23
Total		**376**	**154**	**432**	**170**	**208**	**94 (rep. 114)**	**139**	**109**

Sources: EMN (2006-2010): Overview of the Microcredit Sector in the European Union (2004 – 2010); new data collection for 2010-2011 by evers & jung.

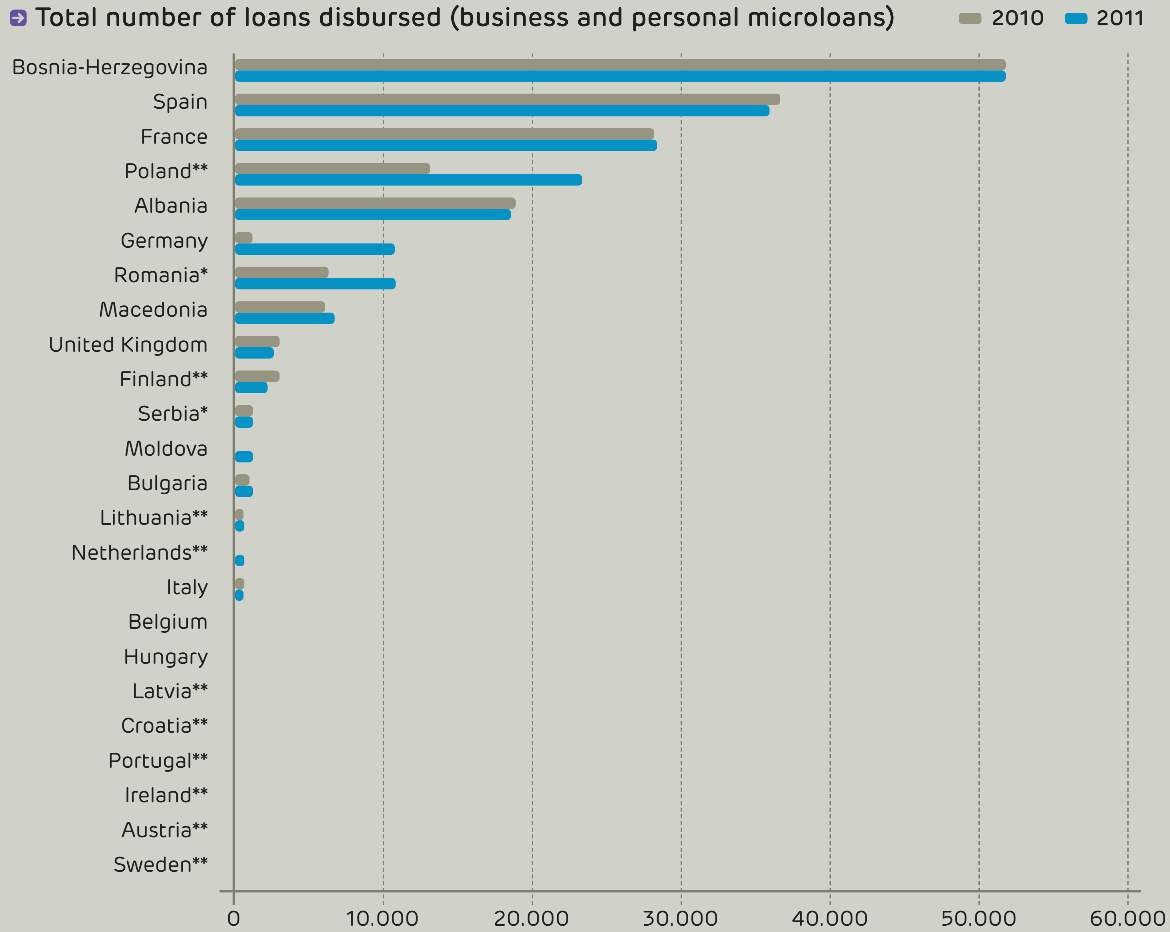
3

Market Overview: Scale and Development

Taking the number of all microloans disbursed (i.e. loans issued for business or personal consumption purpose) into consideration (Figure 2), it is obvious that the greatest outreach of organizations among the covered EU member states that reported to this edition of the survey can be stated for Spain[16], France, Poland and Romania[17]. The same outcome is true for the number of active borrowers presented by country in Figure 3.

Figure 2

Total number of loans disbursed (business and personal microloans)

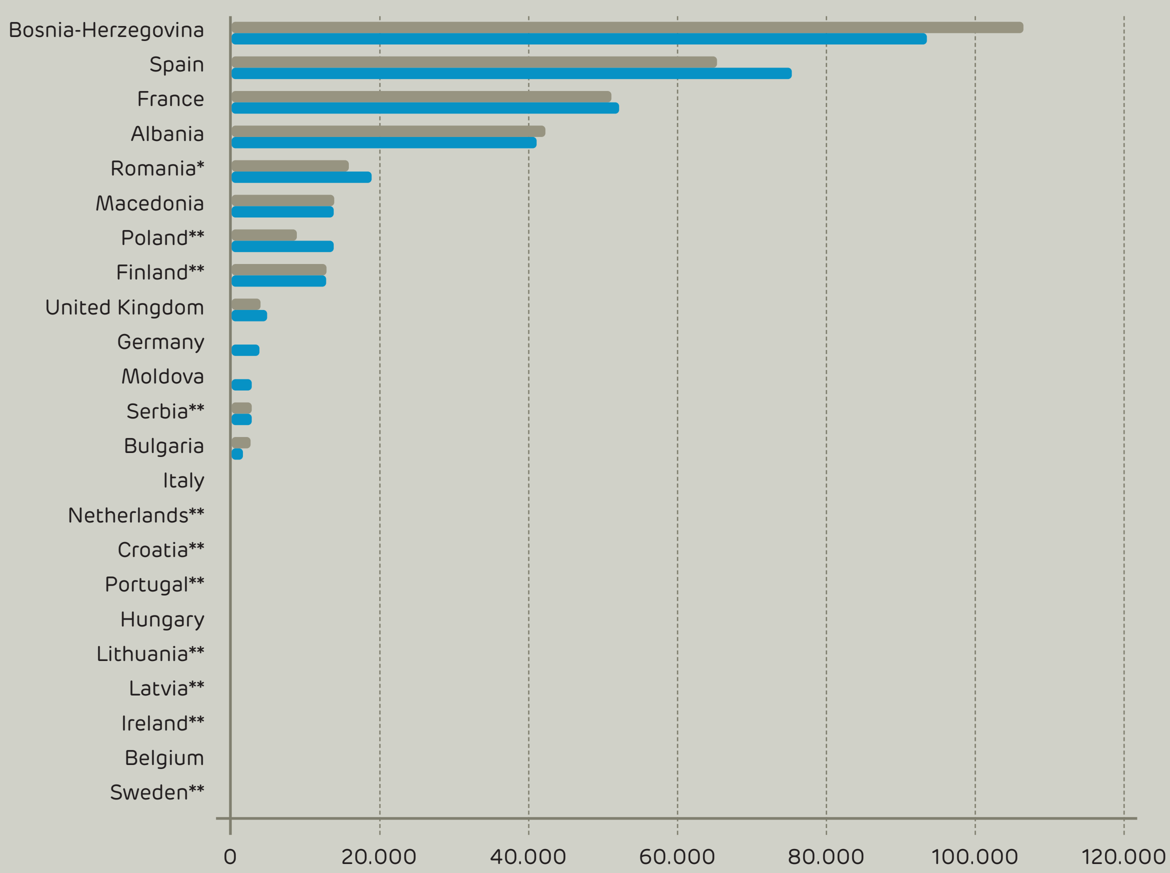


Note: N = 148; n 2010 = 102; n 2011 = 108; *Romania without UNCAR[18]; **only one institution observed[19].

By looking at the portfolio value of loans disbursed per country (Figure 4), the three countries with the highest volume disbursed are Spain[20], Germany[21] and France[22]. Compared to the number of loans disbursed per country, this shows that the Western European countries tends to pay out less loans in numbers, but more in volume than their Eastern European counterparts. This implies that the average loan size in those Western European countries is significantly higher than in the microfinance markets in Eastern Europe.

Figure 3

Number of active borrowers (business and personal microloans)



Note: N = 148; n 2010 = 93; n 2011 = 98; *Romania without UNCAR; **only one institution observed.

16 The number of microloans issued in Spain is particularly related to the activities of one banking institution. This organization provides mostly personal microloans, but as well business microloans. Hereby, the institution separates clearly between personal loans for disadvantaged populations groups and microloans used for entrepreneurial and business purpose. In additon, the institution cooperates with social and public entities as well as uses its own network of branches for the distribution of loans, which enables the institution to gain scale in its micro-lending activities. It is important to note here that the rest of the microfinance sector is struggling to survive due to the lack of funds (related to the financial and economic crisis).

17 In addition, the Non-EU Eastern European countries, such as Bosnia-Herzegovina and Albania, provided a great number of microloans as well.

18 This was done to avoid any double-counting and biases due to the high number of loans given by UNCAR as an association of more than 2,000 credit unions providing more than 600,000 loans.

19 The large increase for Germany can be explained that the national public promotional bank provided only numbers for the year 2011 (around 121 million EUR disbursed).

20 For explanations to this outcome see Footnote 16.

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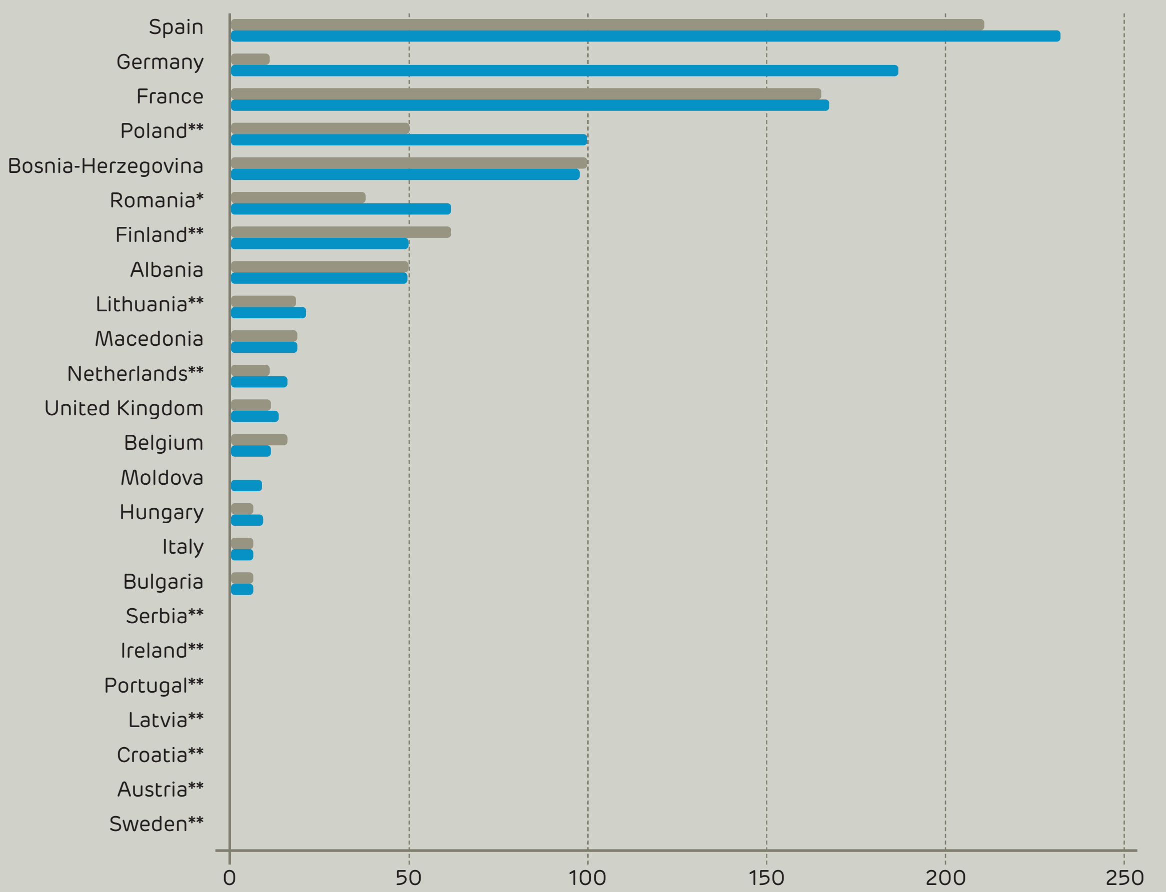
Figure 4

Total value of loans disbursed (business and personal microloans)



Note: N = 148; n 2010 = 102; n 2011 = 108 (1 Bulgarian, 4 German, 1 Spanish MFI founded in 2011); *Romania without UNCAR; **only one institution observed; the covered EU member states-country average 2010 = 6,053 EUR; the covered EU member states-country average 2011 = 7,129 EUR (N=126).

In 2011, the organizations surveyed[23] (incl. MFIs from Non-EU countries) disbursed a total of 204,080 microloans worth 1,047 million EUR (Table 2).

Due to the differing data basis of the four overview report editions taken into account here, it is not possible to present a representative and valid statement of the status quo of the microcredit market due to the different sets of participating institutions in each edition[24]. Nevertheless, the overall development in Table 2 gives an indication that the European microcredit sector (incl MFIs from Non-EU countries) is expanding in number of loans disbursed from 84,523 in 2009 to 204,080 in 2011. The same is true for value from 828 million EUR in 2009 to 1,047 million EUR in 2011[25]. As in this edition are a lower number of institutions covered with in total a higher number of loans disbursed, it can be stated that the sector is in its consolidating phase in terms of the number of institutions.

23 E.g. 108 of the 148 participating institutions provided the respective information for the year 2011.
24 Only part of that change is due to organsiations entering and leaving the sector as some organisations that were active throughout the time period covered by the different editions did not respond to individual editions of the survey.
25 UNCAR, as an association of more than 2,000 credit unions providing more than 600,000 loans, is not included here to avoid any double-counting or biases.

Table 2

Total number of loans disbursed over the EMN Overview Reports

	2003	2004	2007	2008	2009	2010	2011
Number	27,000	35,553	42,750	90,605	84,523	178,572	204,080
Value (million EUR)	210	295	394	802	828	779	1,047
Responses	109/139*	94/206*	94/206*	118/170	138/170	102/148	108/148

Sources: EMN (2006-2010): Overview of the Microcredit Sector in the European Union (2004 – 2010).
Note: *represents the overall response rate of the respective survey. For the years 2008 – 2011 the response rate is only shown for the number and value of loans disbursed.

The organizations based in the covered EU member states reported 122,370 loans with a total volume of 872 million EUR. Compared to the results of the survey for the years 2008 and 2009 this marks a rise of 45 percent in the number of loans and five percent in the total volume (compared to 2009). The EU member countries with the highest number of reported loans are Spain[26], France, Poland, Germany and Romania. All these countries have in common that they are characterized by large populations and microfinance providers that are active at the national level. Between 2010 and 2011 the reported number of loans disbursed in the covered EU member states rose by 24 percent, the highest increase in the history of the EMN survey. Considering all covered countries the increase amounts to 14 percent. The years between 2009 and 2011 saw a steep rise in the numbers of loans provided in certain countries. In Germany the number of reported loans increased by 40 percent to 11,231 in 2011, in Poland by 43 percent to 23,732, in the Netherlands the number even increased by 75 percent to 1,000 in 2011.

In all the three cases the increase referred to the introduction or development of a national scheme for microcredit provision. In Germany a new public funded national scheme started in 2010, in Poland a former NGO was transformed into a bank and in the Netherlands a national provider that already started in 2008 intensified its activities further. In Romania, an increase could be observed due to the access to EPMF funding. The highest increase can be observed in Spain with a boost of 560 percent to 36,118 microloans in 2011, although the main share of this increase is taken by personal loans given out by one institution[27]. Limited to business loans the increase still amounts to 73 percent compared to 2009.

The geographical distribution of organizations that participated in the survey shows an overrepresentation of institutions from Western Europe. Out of 154 organizations that contributed data, 56 organizations are from Eastern Europe[28]. Compared to the prior edition of the survey the share of organizations from the Eastern part of Europe increased slightly (from 32% to 37%), although this includes 22 MFIs from Non-EU member states that were not covered by the previous survey. Organizations from Western European countries reported 84,561 (41% of all loans reported) in 2011, equivalent to 680 million EUR (65% of the total volume reported), whereas in the Eastern European countries the total number of loans reported amount to 119,519 (59% of all loans reported) for the equivalent of 368 million EUR (35% of the total volume reported).

This shows a quite change of the distribution of microcredit supply in the survey sample, as in 2009 around three quarters of the loans and 60 percent of the volume of loans that were reported were issued in the Western part of Europe. It is important to note that the data basis of the different editions of the surveys is not identical, i.e. different numbers of MFIs and countries are covered by each edition, which might cause these differing outcomes. However, the results of this edition of the survey underline the finding that the microcredit market in Eastern Europe is characterized by bigger and more mature institutions. These disburse higher numbers of on average smaller loans to their clients than the MFIs from Western Europe. The lower volumes of the loans correspond with the lower Gross National Income (GNI) in these countries.

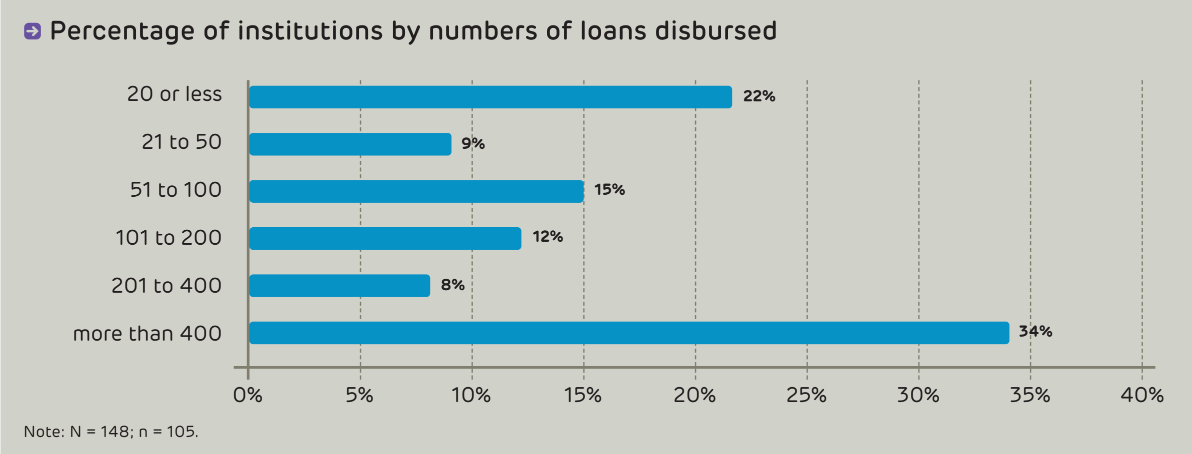
The total number of loans reported from Eastern European EU member states amount to 37,395 loans with a volume of 187 million EUR. That corresponds to 31 percent of total loan numbers in the EU and 21 percent of total volume. This distribution is similar to the results of the previous survey of Eastern European EU member states that observed shares of 26 percent (number of loans) and 40 percent (volume of loans).

Figure 5 illustrates that 78 percent of all organizations (incl. MFIs from Non-EU countries) that provided data on their lending activity in 2011[29] distributed more than 20 loans in that year, 69 percent more than 50 loans and 54 percent more than 100 loans.

The average number of loans per institution in Western Europe amounts to 1,226 loans, in EU Eastern Europe 1,575 loans. The average number for all Eastern European organizations was 2,390 loans. This indicates that the institutions in Eastern Europe are larger in size of loan disbursements, i.e. more developed and mature institutions, than their Western European counterparts.

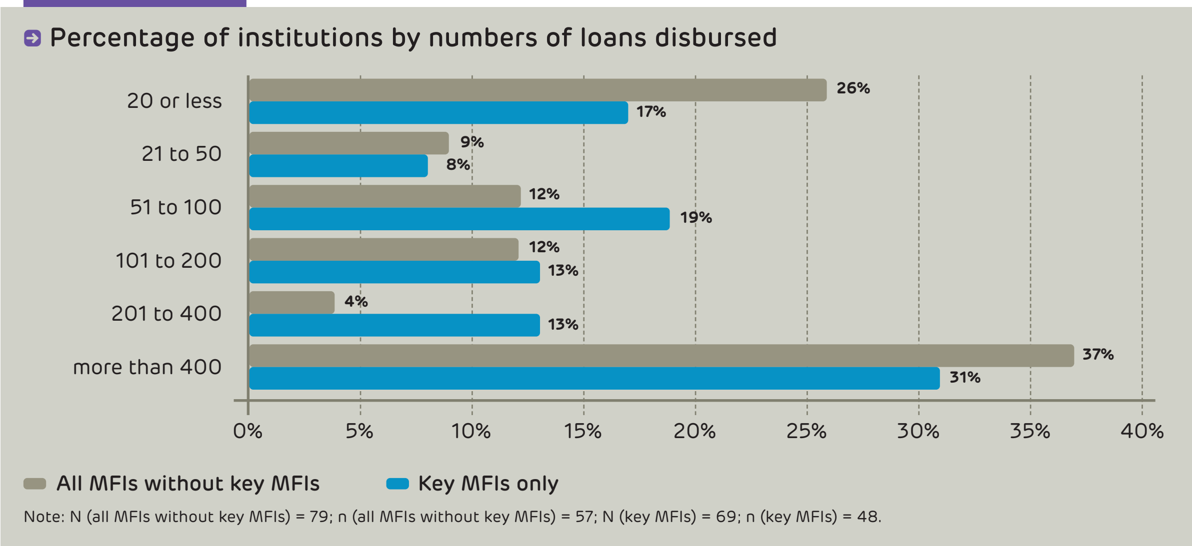
26 For explanations to this outcome see Footnote 16.
27 For explanations to this outcome see Footnote 16.
28 Not included in this number are the 2,000 Romanian credit unions that provided overview data on their activities via their association UNCAR.
29 108 of the 148 participating institutions provided the respective information for the year 2011.

Figure 5



In addition, Figure 6 displays the size ranges of the MFIs distinguished by the two survey strands used, i.e. all MFIs without key MFIs and the key MFIs. 26 percent of all MFIs without key MFIs provided 20 loans or less in 2011 (17% of the key MFIs). Furthermore, the key MFIs are significantly larger due to the provision of loans per year than the group of all MFIs without key MFIs. 76 percent of the key MFIs (65% of all MFIs without key MFIs) issued more than 50 loans and 57 percent (53% of all MFIs without key MFIs) more than 100 loans in 2011.

Figure 6



To control for the above described development of microfinance in Europe over time, a sample of institutions was prepared including only institutions which provide the number of loans disbursed and the respective value of loans for the time period 2008 to 2011. 24 organizations were found in 13 countries, both from Western and Eastern EU member states plus Croatia. The other twelve countries are Belgium, Bulgaria, Finland, France, Germany, Hungary, Ireland, Italy, Portugal, Romania, Spain and UK. For this sample, the microloans disbursed in number as well as in monetary value are shown in Table 3. Among this sample, a consolidating tendency in the amount of lending is obvious, as the annual number of microloans disbursed from 2008 to 2011 were determined in the range of 40,000 up to 45,000 loans. In the same time the total volume of the loans decreased, which means that the average loan sizes, which are disbursed by these organizations, decreased.

Table 3

Number and value of loans disbursed in the 24 institution sample

	2008	2009	2010	2011
Number of loans	45,394	40,658	44,513	43,937
In millions of EUR	314	289	244	264

Sources: EMN (2010): Overview of the Microcredit Sector in the European Union (2008 – 2009); current survey results.

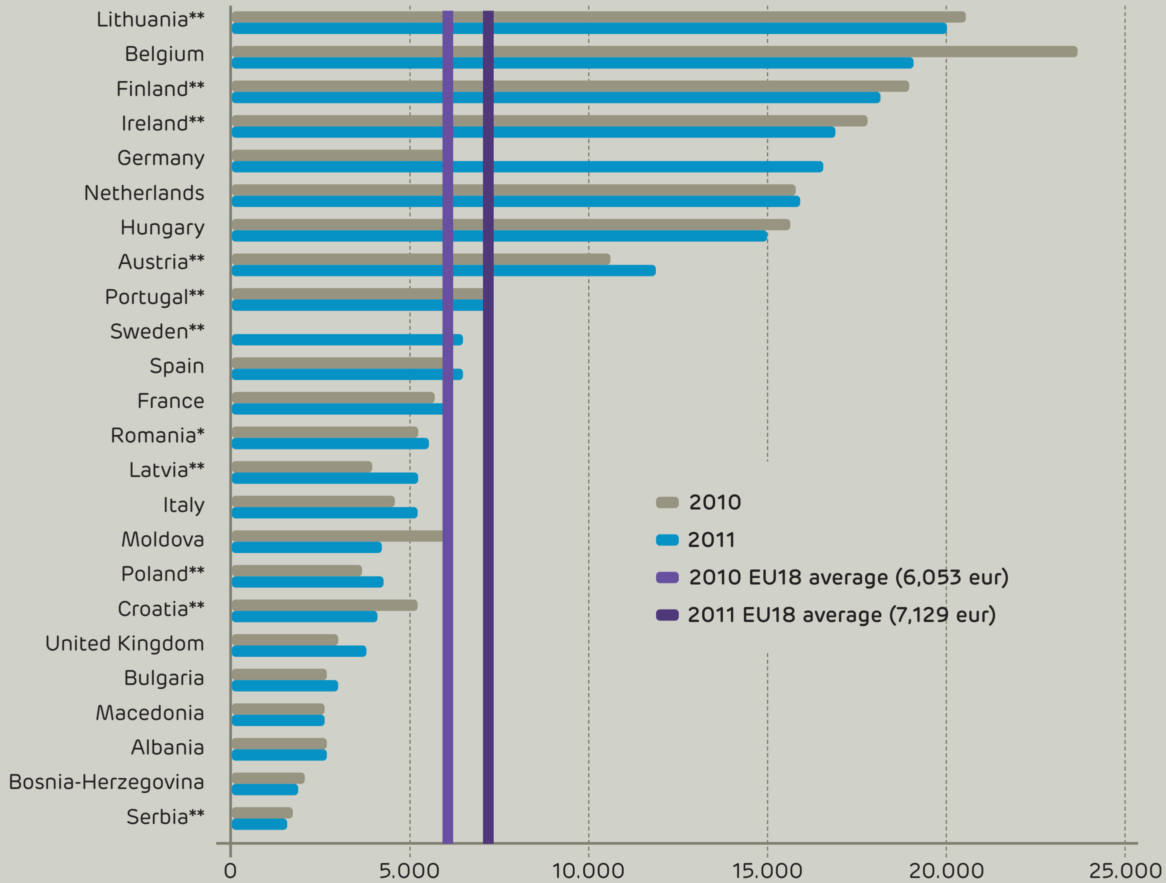
From 2005 to 2011 the European microfinance sector as a whole has seen a strong growth not only in the number of loans, but as well in the value of the portfolio.

In the section above the increase of 45 percent in the number of loans and five percent in the total volume among the MFIs located in the EU compared to 2009 was already described; thus, it is no surprise that in the EU member states covered here the average loan size was 7,129 EUR[30] (2010: 6,053 EUR) which is a decrease compared to the result from the previous edition (2009: 9,641 EUR). In contrast to the previous survey the loan disbursements tend to move to smaller loans and so more to the upper end of the microfinance market in the covered EU member states. The average volume of a loan in the total sample was 5,135 EUR in 2011.

The average loan size per country[31] is illustrated in Figure 7. Above the average loan sizes are particularly found among Western EU countries, e.g. Finland, Belgium or Ireland, while the MFIs from Italy and UK are below the EU average loan volume. Among the Eastern EU countries the MFIs from Lithuania and Hungary target the upper market with a high average loan size, whereas the organizations located in Romania, Poland and Bulgaria emphasized their activities more on the lower end of the market with below the EU average loan value.

Figure 7

Total value of loans disbursed (business and personal microloans)



Note: N = 148; n 2010 = 102; n 2011 = 108 (1 Bulgarian, 4 German, 1 Spanish MFI founded in 2011); *Romania without UNCAR; **only one institution observed; the covered EU member states-country average 2010 =6,053 EUR; the covered EU member states-country average 2011 = 7,129 EUR (N=126).

30 Analogous to the previous survey, the average loan size was calculated as a ratio of the total volume of microloans disbursed and the total number of loans disbursed only aggregated for all countries or EU countries covered. i.e. the sum of the volume of microloans disbursed in the EU countries is divided by the total sum of the number of microloans issued in the EU to calculate the average loan size. That means that the number of loans provided is explicitly taken into account in the calculation. This was done to ensure the comparability between the different survey issues.

31 This was calculated in the same manner as the average loan size only per country.

In addition, the share between average loan size by country (only EU countries) and the total average for the EU countries is presented in Figure 8. Furthermore the average loan size per country deflated by the GNI per capita (per country) to correct for national income differences, as average loan sizes were used as proxies for the measurement of outrech[32]. The outcome for the ratio of average loan size per country and GNI per capita is shown in Table 4 for the EU countries covered[33].

Table 4

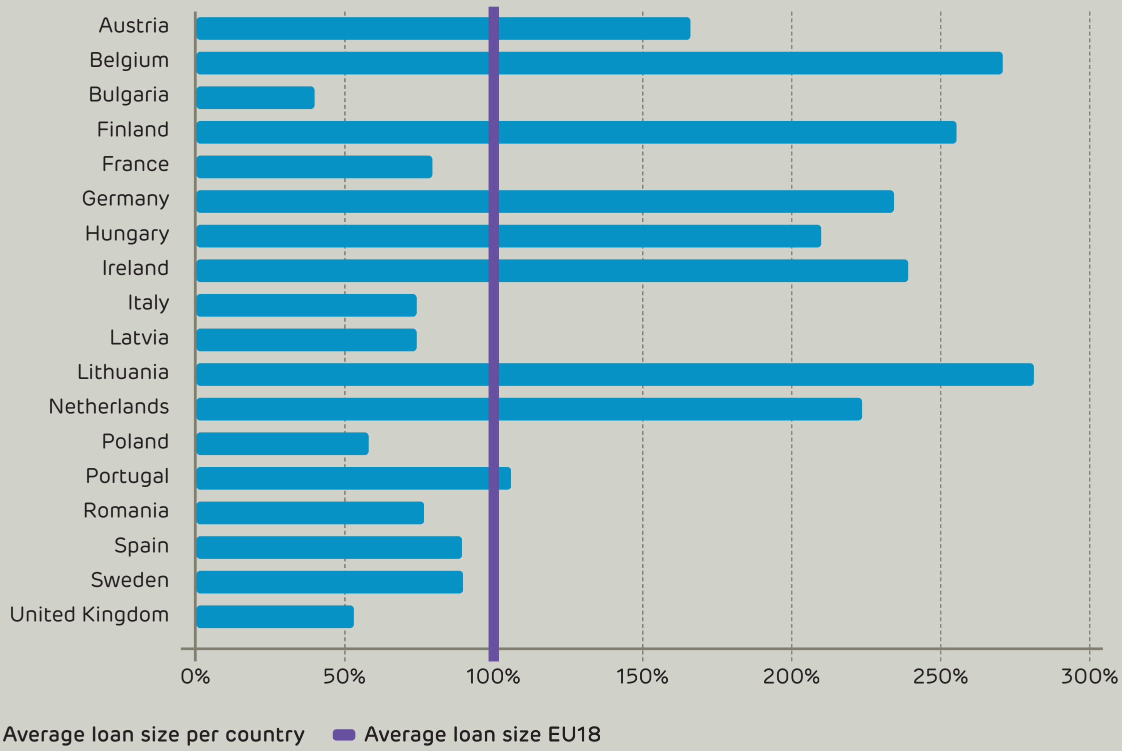
Average loan size per country deflated by GNI per capita

EU countries (covered)	Average Loan Size (deflated by GDP per capita in EUR per country)	EU countries (covered)	Average Loan Size (deflated by GDP per capita in EUR per country)
Austria	0.37	Latvia	0.39
Belgium	0.64	Lithuania	1.34
Bulgaria	0.27	Netherlands	0.48
Finland	0.62	Poland	0.27
France	0.21	Portugal	0.40
Germany	0.54	Romania	0.47
Hungary	0.97	Spain	0.26
Ireland	0.67	Sweden	0.20
Italy	0.21	United Kingdom	0.14

Note: N = 148; n = 93 (only MFIs from EU countries).

Figure 8

Share of average loan size by country due to EU average loan size



Note: N = 148; n = 93 (only MFIs from EU countries).

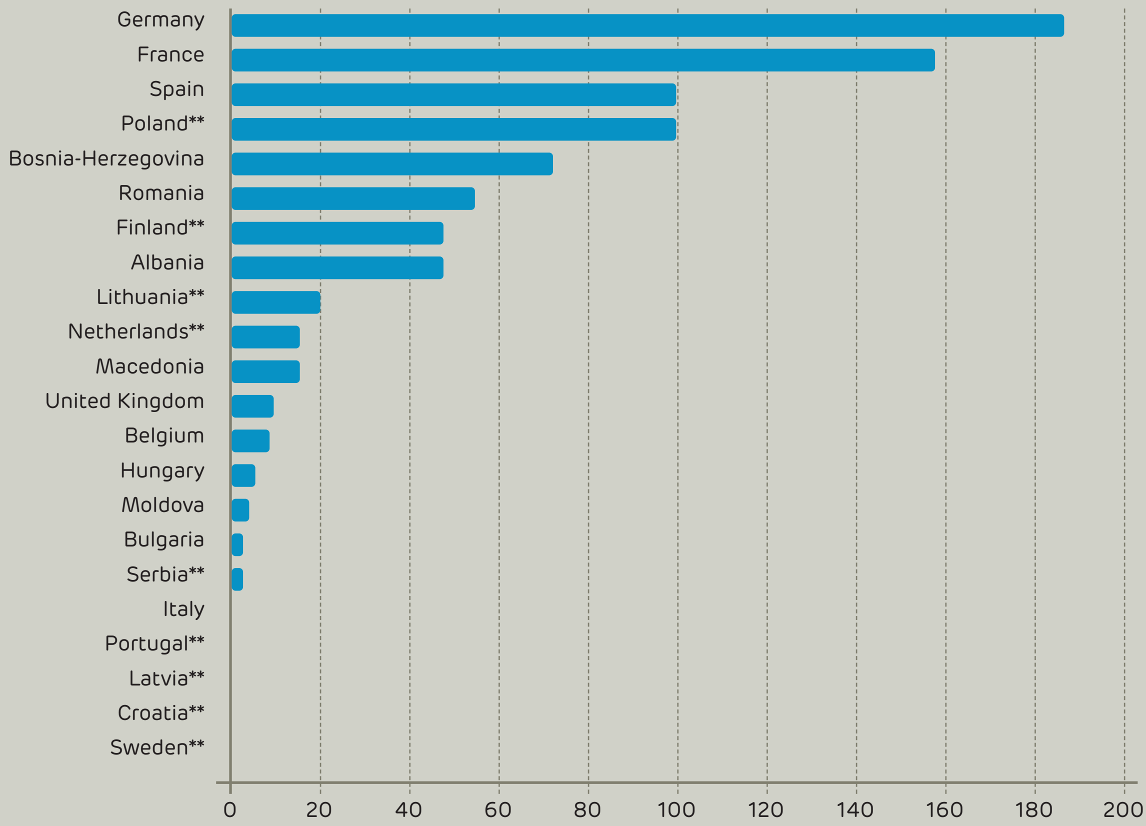
32 See e.g. Cull et al. (2007).
33 This is done to follow up the discussion whether the measure of average loan size is feasible to identify the notion of targeting disadvantaged groups in the countries. Here, we can only present an indicative tendency or proxy solution, as an average loan size per country has a limited explanatory power, if several MFIs are covered. For instance, there exists a biased effect to the mean, when an MFI with a very high average loan size and an MFI with a very low average loan size are covered. This could lead to a country perspective which does not represent the diversity of MFIs active in a country. The same is true for the use on the institutional level, if an MFI is examined with a diversity of target groups covered.

Microcredit is defined by the European commission as loans up to 25,000 EUR for business or entrepreneurial purpose[34]. Overall, 162,209 microloans for this purpose were issued by MFIs in Europe with a total volume of 867 million EUR in 2011. This accounts for around 80 percent of the overall number of reported loans and 83 percent of the total volume. Hence, microloans for business or entrepreneurial reasons still dominate the micro-lending market in Europe. Figure 9 and Figure 10 illustrate the total value and number of business loans disbursed per country. However, over the past years some microfinance organizations have started to offer "personal microcredit" to their clients as an addition to loans for business and entrepreneurial purpose. The inclusion of these loans, was established in the previous edition of the survey. The results of the survey show that with 17 percent in 2011 personal loans have reached a significant share of the total number of microloans disbursed in the countries covered. The share is especially high in some countries, such as Spain (51%) and Bosnia-Herzegovina (24%). Of the loans paid out by organizations from the covered EU member states the overall share of personal loans amounts to 26 percent, although without Spain[35] the share is only seven percent.

This edition of the survey has tried to include the microfinance activity by commercial banks into the overview. The results of correspondent requests to national banking associations showed that for most European countries no overview data on the number and volume of microloans that are disbursed by commercial banks is available. Most banks do not differentiate their lending activity for loan amounts under 25,000 EUR and do not distinguish between loans for personal consumption or business purpose in their lending activities, so that they do not maintain statistical analysis for this. However, we are very grateful to state that the European Savings Banks Group provided us with some data about the microcredit disbursement of saving banks for a few selected countries. For instance, in France, there exist three ways how the savings banking sector is involved in micro-lending. First, they provided directly around 5,119 microloans (65.8 million EUR) for business purpose, or secondly, 1,224 microloans (13.5 million EUR) for personal consumption in 2011. Third, they issued through MFIs directly and/or supported by savings banks around 3,625 microloans (11.1 million EUR). Overall, this accounted for around 10,000 microloans disbursed with a value of 90.4 million EUR. As an institutional example from savings banking sector, in 2011 the Erste Group issued more than 57,000 microloans based on the EU definition of microloans in eight mostly Eastern European countries (e.g. Romania, Slovakia or Serbia).

Figure 9

Total value of business loans disbursed (in million of EUR)

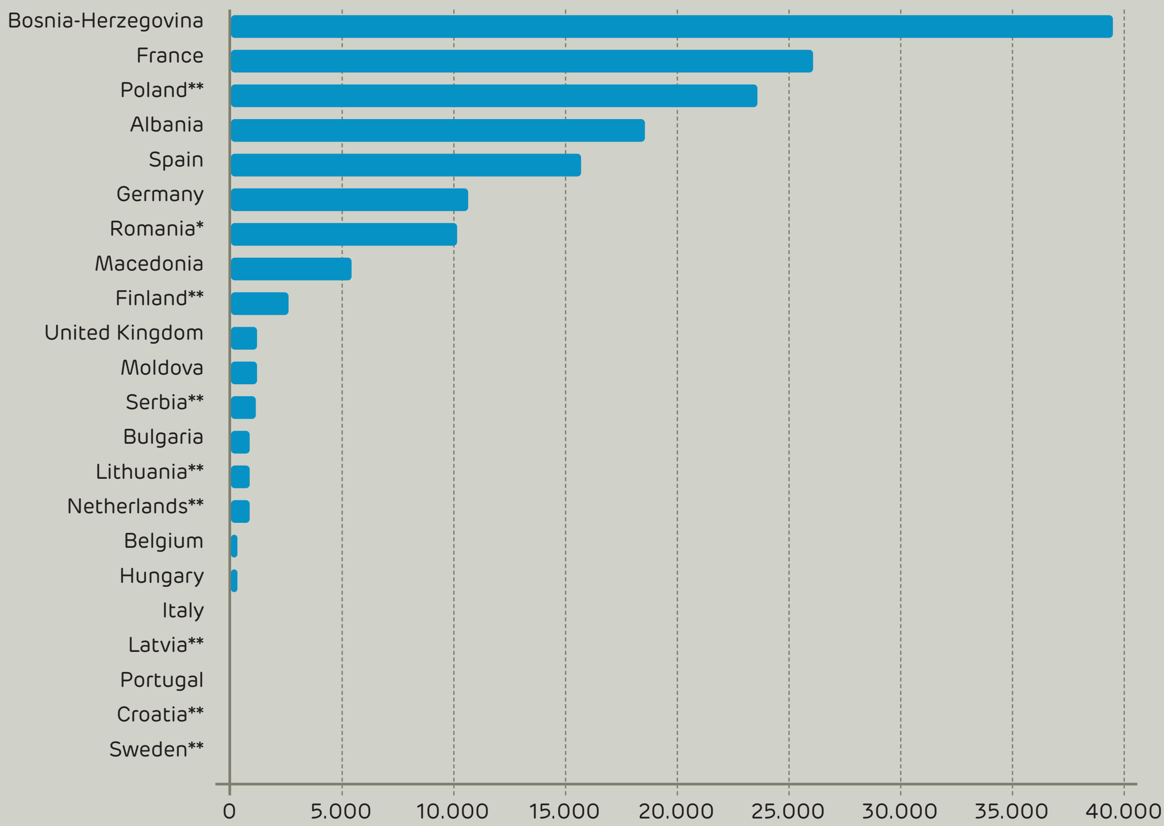


Note: n = 104; *Romania without UNCAR; **only one institution observed; EU17-country average 2011 = 7,541 EUR (n=93).

34 European Commission (2003).
35 For more explanations to this outcome see Footnote 16.

Figure 10

Total number of business loans disbursed



Note: n = 104; *Romania without UNCAR; **only one institution observed.

Due to budget and time constraints, the EMN survey does not include a collection of data and information on the demand for microcredit of start-ups and microenterprises in Europe or in specific countries. Furthermore, the collection of reliable demand evidence is both a challenge to the methodology and scope of a survey approach as conducted here. Nevertheless, a question was included in the qualitative interviews with national experts and MFIs' representatives for the country profiles, which were facilitated by the NCs, to assess the development of the demand for microcredit products in the countries covered. In general, these indicative answers are characterized by a wide range in outcome. The majority of the national experts assessed the demand for microfinance as high with the tendency to be stable or increasing in the upcoming years. It was mainly argued that this is connected to the ongoing financial crisis in Europe, e.g. in Belgium and Italy, and specific consequences of it, e.g. the increasing unemployment in some countries such as Spain. In addition, more general trends in labor and financial markets were mentioned as catalysts for more demand for microfinance in the future.

Spotlight

Developments in Microfinance Legal Framework[36]

Currently, the legal framework for microcredit provision in Europe presents significant differences among the EU member states and accession countries ranging from dedicated legal acts for microfinance provision to specific provisions on micro lending in acts regulating the banking sector or NGO sector. In the qualitative interviews of the survey among national experts and MFIs no recent changes (i.e. 2010/2011) in the legal environment were expressed.

At European level there are a number of initiatives aimed at capturing the lessons learned in the national jurisdictions and using them to support the development of microcredit provision in other countries. Such an initiative is the Legal and Regulatory Environment Working Group (LER-WG) funded by the EU and managed by the EMN. The general objective of the LER-WG is to contribute to the creation of an enabling legal and regulatory framework for the microfinance activities in the

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EU, strengthening the EMN capacity to lobby at EU institutional level and support the transfer of knowhow and best practice among the microfinance sectors in EU countries.

The group unites members from France, Germany, Hungary, Italy, Romania and Spain. Through this representation, the group offers the possibility to analyze different legal environments for microfinance:

- Romanian and French legislation contains specific rules relating to microcredit and non-banking institutions.
- Italy has passed in 2010 legislation for the creation of non-bank MFIs. A new article introduced in the Italian Banking Act includes also social microloans even if as "not prevalent products", i.e. those respective entities are able to grant loans to individuals for the purpose of creating or developing a business and provisions on the definition of a microcredit.
- In Hungary, there is no general legal framework regarding the microcredit sector. However, there are special rules in force which regulate the operation of institutions that deal with microcredit.
- Germany recognizes the importance of microcredit, but not wanting to undermine the monopoly of the banks, has a subsidized system based on collaboration between banks and microcredit associations.
- Spain does not have a specific microfinance law, but Fundación Nantik Lum, Foro de Microfinanzas and some social entities are developing different workgroups in order to propose a regulation for MFIs in Spain.

This year's activities of the LER-WG brought up some of the main aspects that characterize the legal and regulatory framework in Europe and the challenges of microcredit provision in Europe related to the legal environment.

Firstly, the existence of specific microfinance legislation in Eastern Europe compared to Western countries determined the microfinance market to continue to be more commercially oriented and MFIs financially sustainable. However, in Western Europe the social inclusion remains the primary goal of MFIs which receive public financial support to develop their activities. Secondly, there are still a number of challenges that MFIs are facing either due to the lack of specific microfinance legislation or inadequate provisions in the legislations such as:

- Even in those countries where microfinance legislation exists, the lack of provisions on the social goals of the MFIs determined the creation of so-called 'MFIs'. But these have solely commercial goals and an approach that is often not supporting the business creation and development, such as very tight reimbursement conditions. This was the case in Romania where many of the MFIs, which were created after the passing of the microfinance law, were purely commercial or like in Hungary where the new MFIs are profit-oriented 'MFIs' appeared as the JEREMIE Programme was launched and access to low-cost funding was widely available.
- The access to credit bureau data and similar databases remains limited for MFIs. In Spain, for example, the non-bank MFIs have no access to the national Risks Information Center (Central de Información de Riesgos) of the Bank of Spain. In Romania, MFIs that are registered in the Special Registry of the National Bank of Romania (NBFIs with equity of minimum 50,000,000 lei and an outstanding portfolio of minimum 25,000,000 lei) can access Credit Bureau data and report on their clients to the Credit Bureau. Smaller MFIs have to find alternative solutions, such as cooperation with banks in order to access credit bureau information.
- The caps on interest rate in most countries limit the ability of some MFIs to become operationally sustainable. For example, in Macedonia the legal framework for microfinance provision was recently amended in December 2012. The changes to the Law on Financial Companies and Law on Obligation Relations include the introduction of interest caps. This had a negative influence, due to the low rates set by the regulators which is jeopardizing the sustainability of the MFIs and limits their capacity to provide nonfinancial services, e.g. business support services to their clients.
- In certain jurisdictions, changes to the legislative framework significantly affected the microcredit provision. In Croatia, in 2008 the license to operate as financial services providers was withdrawn to the MFIs established in early 2000 with the support of international microfinance NGOs, e.g. DEMOS. There are initiatives to promote a new legal framework, or to amend the existing one, in order to create am enabling environment for inclusive finance and microfinance.
- The lack of specific legislation on microfinance in certain countries keeps institutions that provide microloans as NGOs from accessing commercial funding for on-lending.

Despite the challenges mentioned above, there are continuous initiatives to develop an enabling environment for microcredit provision that will respond to the needs of micro businesses and will contribute to job creation and poverty reduction. Recently, efforts are made to coordinate the legal reform efforts aimed to improve the microfinance environment with lobby for the stimulation of entrepreneurship development.

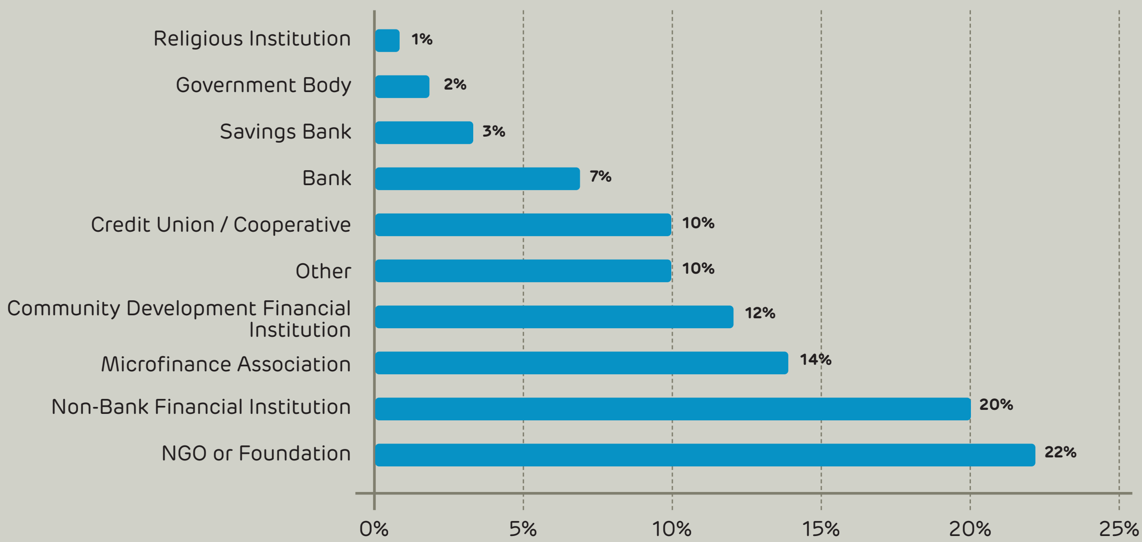
4 Microfinance Providers

4.1 Institutional Key Characteristics

The European Microfinance sector is as diverse as its actors/institutions are. Figure 11 presents a broad variety of institutions that issue microloans in the EU, its candidate and potential candidate states. To a high extend this diversity of institutional forms is connected to national differences in the legal environment for loan provision and microenterprise promotion.

Figure 11

Total share by institutional type



Note: N = 148; n = 147.

37 NGOs active in microfinance in the UK can receive a specific legal status as so-called CDFIs.

The list of institutional forms includes religious institutions, governmental bodies, savings and commercial banks, credit unions, cooperatives, Community Development Financial Institutions (CDFIs)[37], microfinance associations, non-bank financial institutions, and Non-Governmental Organizations (NGOs) or foundations. Similar to the previous editions, the distribution in 2011 among the institutional types shows that the highest shares of institutions are still found among NGOs or foundations (2011: 22%, 2009: 26%) and microfinance association (2011: 20%, 2009: 16%). Furthermore, small increases in the share of the banks (from 5 to 7%), the credit unions/cooperatives (from 8 to 10%) and the CDFIs (from 11 to 12%); thus, a slight tendency to more institutional diversification can be observed in the market.

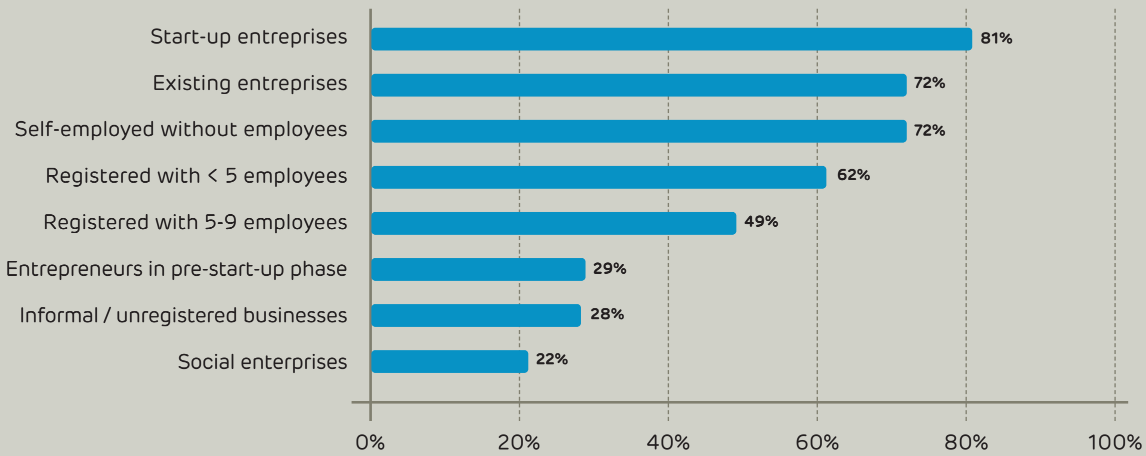
Table 8 (in Appendix) shows the types of institutions per country. In Hungary and Spain fifty percent or more of the participation institutions are NGOs or foundations. The same is true for the non-bank financial institutions in the following countries: Albania, Belgium, Finland, Lithuania, Moldova, Romania, Serbia and Sweden. In UK, 80 percent of the organizations that participated in the survey are organized as CDFIs. Credit unions and cooperatives are the dominant institutional form of microcredit provision in Bulgaria and Croatia.

The participating institutions also are working on different operational scales. This information was only requested from the key MFIs covered by this edition. Among the key MFIs, the majority of the organizations operate on national (52%), regional (51%) or both. Only one organization is internationally active, i.e. working in more than one country in Europe.

In addition, the MFIs participated were asked to identify the type of business they targeted. Figure 13 shows the distribution of the MFIs among the businesses supported. The outcome displays that more than 80 percent of the MFIs responded focused on start-up enterprises, followed by existing enterprises (72%) and self-employed without employees (72%). Significantly less MFIs supported entrepreneurs in the pre-start-up phase (29%). Due to the size of the businesses targeted, 62 percent of the participating institutions emphasized registered businesses with five or fewer employees, while 49 percent supported businesses with five up to nine employees. The "social enterprises" were added for the first time in this edition, which were supported by 22 percent of the MFIs surveyed. Compared to the previous survey edition, only slight changes in the shares is observed due to the types of business supported by the MFIs.

Figure 12

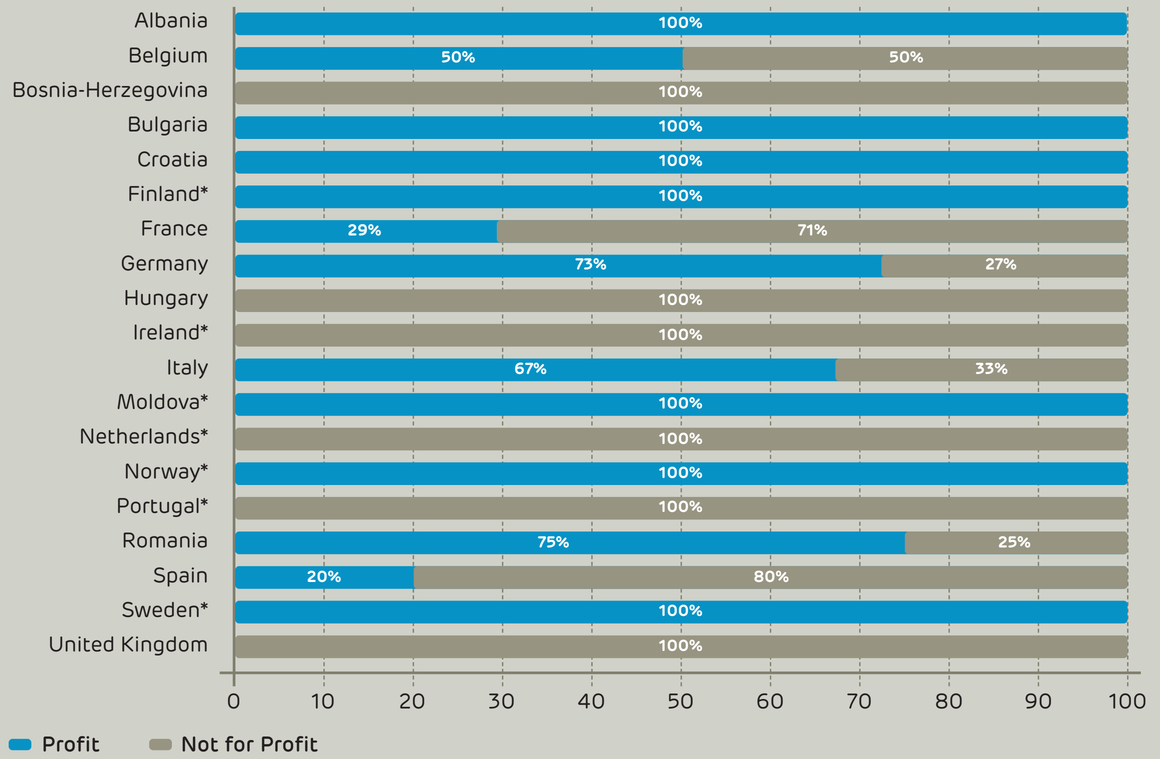
Types of businesses supported



Note: N = 148; n = 115. The respective question allows multiple answers; the percentages above will not add up to 100%.

Figure 13

Share of profit and non-profit institutions per country (Key MFIs only)



Note: Key MFIs only; N = 69; n = 69; * = only one institution observed.

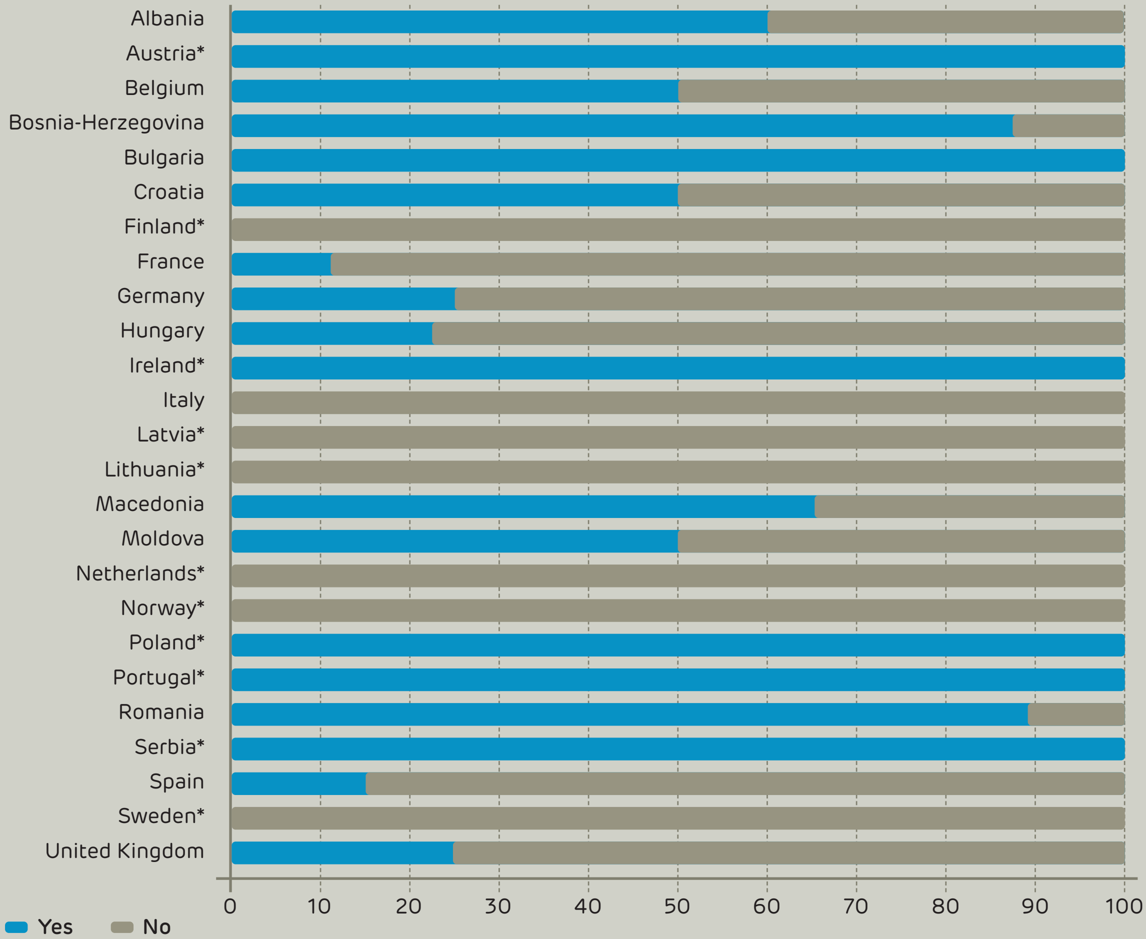
In addition to classifying institutions by their profit orientation, micro-lending organizations can also be distinguished by their focus on micro-lending activities. On the end of the spectrum are organizations which conduct micro-lending operations as their main activity and on the other end are those for which the share of activity dedicated to micro-lending is less than 50 percent. Important to note here is that only 37 percent of the participating institutions are active in micro-lending only, i.e. nearly two thirds of the actors are engaged in other activities beside micro-lending. Other activities include traditional banking services, business development services, as well as entrepreneurship and financial education trainings. For instance, the business development services are mainly financed from the profit earned by the lending activities in the Eastern European countries. Nevertheless, compared to the previous survey edition, in which only 24 percent of the institutions covered were active in micro-lending only, this finding shows a considerable increase of specialized micro-lending institutions in the countries covered by the survey. This confirms the fact that the European microfinance market is not only consolidating in numbers, but as well on the institutional level.

Figure 14 represents the distribution per country. Among the 25 countries covered here, in 13 countries the majority (i.e. 50% or more) of the institutions are active in micro-lending exclusively, whereas in the other twelve countries most organizations are emphasizing their other activities. Beyond that, a clear difference between Eastern and Western European countries can be pointed out. Among the countries, in which the MFIs are mostly active in micro-lending only, the majority (9 out of 13 countries) are from Eastern Europe (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Poland, Romania and Serbia). In contrast to this, the countries, in which the actors are emphasized more on other operations, are dominated by Western European countries (nine out of twelve), such as Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden and the United Kingdom. This indicates that the MFIs in the European countries are at different stages of their life cycles. The Eastern European countries are generally characterized by more mature institutions that are active in markets that allow them to focus on their microfinance activities, whereas among Western European countries several young organizations and institutions exist, which follow a broader focus of activities.

38 See the description of the methodology in Chapter 2.

Figure 14

Share of institutions per country active in micro-lending only

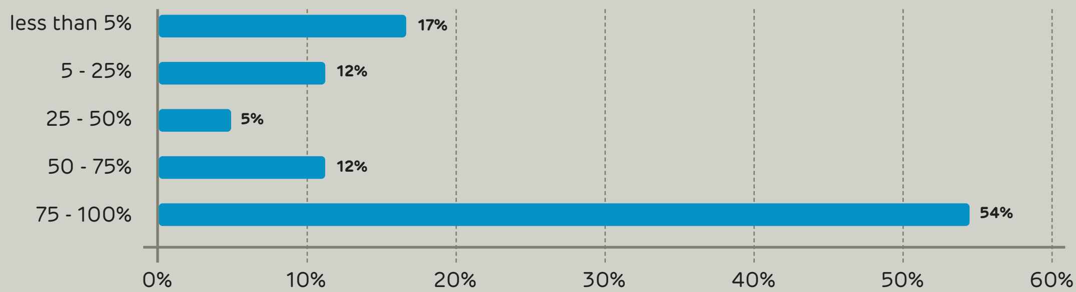


Note: N = 148; n = 147; * = only one institution observed.

By looking at the share of business activity dedicated to micro-lending among the key MFIs, Figure 15 shows that more than two thirds of the key MFIs dedicate more than 50 percent of their operations to micro-lending. Table 9 (in Appendix) shows this distribution per country. Only 29 percent of the key MFIs report the proportion of their business activities dedicated to micro-lending lower than 25 percent or less. In previous survey editions, this data was shown for all MFIs, so that the share of institutions, which dedicate more than 50 percent of their business activities to micro-lending, was quite smaller, e.g. around 42 percent in 2008/2009.

Figure 15

Share of business activity dedicated to micro-lending



Note: Key MFIs only; N = 69; n = 59.

This outcome underlines the fact that among the identified key MFIs are more institutions focusing the main part of their activities on the issue of providing microloans, so that these institutions can be understood as the more specialized part of the European microfinance sector.

If we sharpen this outcome by looking at the ten MFIs in the covered EU member states with the highest numbers of loans disbursed in 2011, two general blueprints of institutional set-ups for micro-lending in Europe can be identified[39]. Out of these top ten MFIs, four institutions are located in Eastern and six institutions in the Western part of the EU. The institutional types are distributed like this: four banks, three non-bank financial institutions, two microfinance associations and one other type of institution specified as multi service provider. Half of them work for profit; the other half for non-profit (two left this category out). The same distribution appears for the share of activity dedicated for micro-lending (two left this category out) and for the question if the institution is dedicated to micro-lending only. Consequently, the first of the blueprints includes micro-lending entities that are organized as a for profit (promotional) bank or a specialized unit of a bank and dedicate their activities 75 up to 100 percent to microfinance (one exemption)[40]. The second blueprint consists of a MFI that organized as a non-banking financial institution or microfinance association, works for non-profit (one exemption) and concentrates its business activities 75 up to 100 percent on micro-lending[41]. Both blueprints feature organizations that act as 'specialized' MFIs, but organize this activity in different ways. The distribution of the blueprints across countries shows that the institutional type which is most suited for up-scaling the scope of loan provision depends highly on the legal environment an institution is working in.

The access to national funding mechanisms or sources influences the institutional type. These environmental factors can change over time. In one case a NGO recently transformed into a bank to be able to continue its lending activities on the outreach level it had established as a non-bank institution.

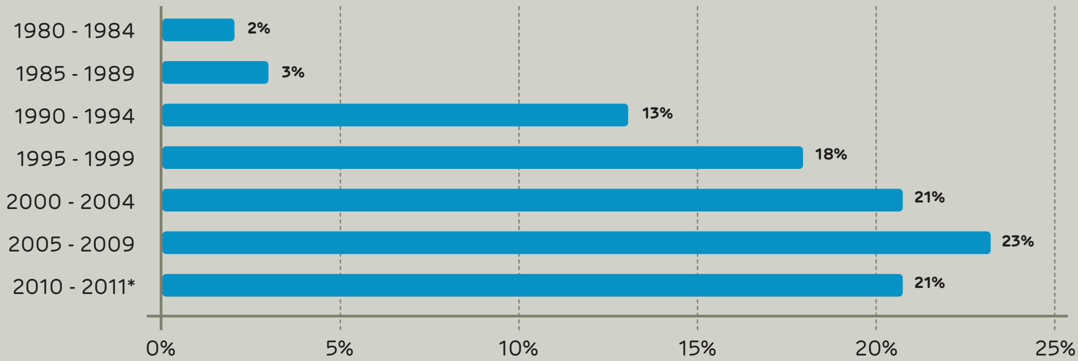
Nevertheless, this finding clarifies that institutional blueprints for micro-lending have further developed throughout Europe that are prone to foster the up-scaling of an institution's micro-lending activities. The EU initiatives for funding and capacity building (JASMINE) could be viable tools to further support European MFIs to follow these blueprints for widening the scope of the sector as a whole.

Beyond that, the microfinance sector in Europe is still young, as 21 percent of all institutions surveyed have started their activities not earlier than 2010. Nearly two thirds of all institutions entered the sector after 2000. The time period with the highest amount of entries (23% of all institutions) was between 2005 and 2009 (Figure 16).

In addition, Figure 17 shows that the organizations in the group of key MFIs are on average slightly younger than the rest of the sample. For instance, 39 percent of all MFIs without the key MFIs were founded before 2000 (34% among the key MFIs) and 61 percent since 2000 (66% among the key MFIs). Important to note is here that there is a significant share of key MFIs that began lending in 2010 or later. As the group of key MFIs includes MFIs, which were supported or funded by EU microfinance initiatives (EMN members, EPMF, JASMINE), this shows that the last two years saw several new entrants into the sector with highly ambitious plans, which attracted awareness and support at the EU level.

Figure 16

Share of period lending began (total)



Note: N = 148; n = 146; *observation period only 2 years

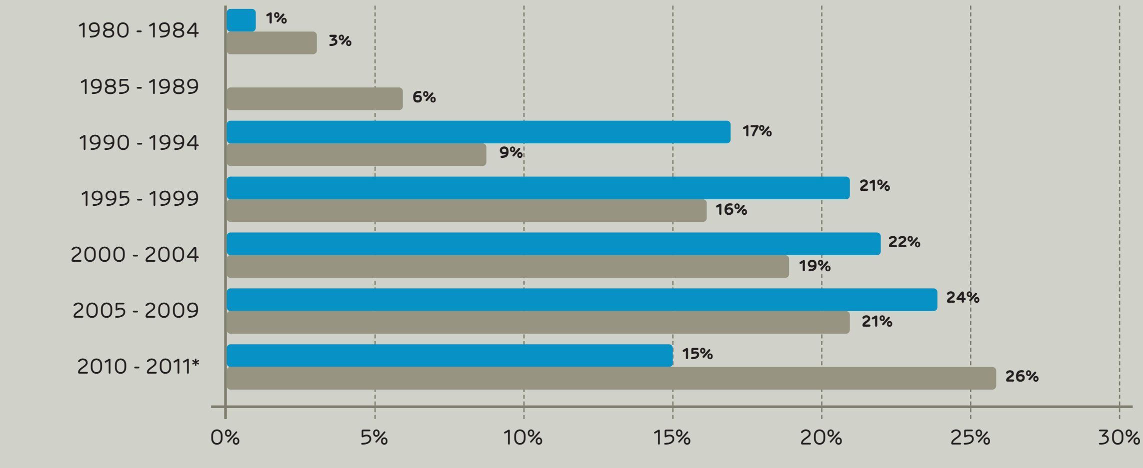
39 This differentiation of two institutional blueprints is informed by a past publication by evers & jung that differentiated four business models for microfinance in Europe. The four models are 1) NGOs – microfinance driven approach, 2) NGOs – with a target group driven approach, 3) support programs initiated in existing institutions and development banks and 4) specialized units of banks. See for more information Evers et al. (2007), p. 15ff.

40 This combines the two described business models in Evers et al. (2007) of a specialized unit of a bank or respectively of a dedicated microfinance program initiated and run by a promotional bank.

41 This includes the two outlined approaches implemented by NGOs, which are mostly microfinance driven (Evers et al. 2007).

Figure 17

Share of period lending began

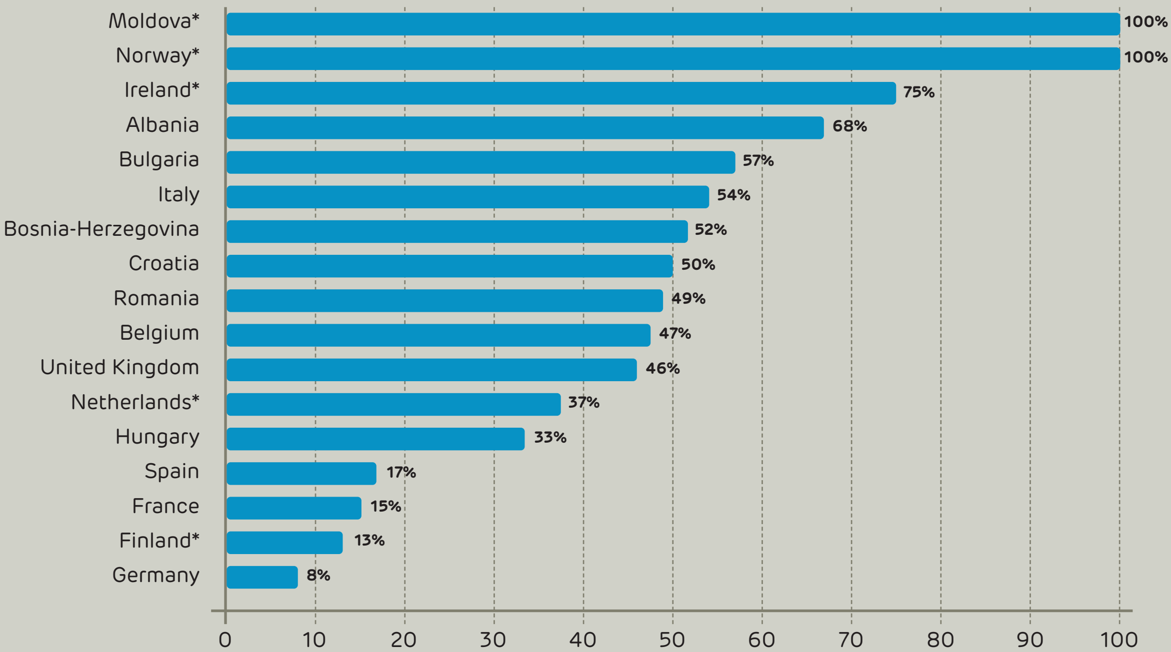


Note: N (all MFIs without key MFIs) = 79; n (all MFIs without key MFIs) = 78; N(key MFIs) = 69; n (key MFIs) = 68; *observation period only 2.5 years.

Taking the share of full-time loan officers among all staff members into account, Figure 18 confirms the trend to more specialized micro-lending institutions among the key MFIs. Eight out of the 17 countries, featuring key MFIs, have a share of 50 percent or more of full-time loan officers among their selected key MFIs.

Figure 18

Share of full-time loan officers



Note: Extended only; N = 69; n = 57; * = only one institution observed.

Spotlight

Credit Unions – Experience from Romania[42]

Besides MFIs, credit unions, as micro-lending providers, play a major role in many countries of the EU such as Ireland, the United Kingdom, Poland, Romania and Bulgaria.

In Romania, credit unions (C.A.R.) are associations of individuals who have as main source of income the income from employment. The credit union is a non-bank financial institution, non-profit, organized to support and provide mutual financial aid to its members. Credit unions provide loans, with interest, for personal or business development needs. The main types of loans provided by credit unions in Romania are:

- Traditional: 3-5 times the amount of the member's fund;
- Diversified: emergency for a period of 1-4 weeks; short term: 1-12 months; medium term: 1-3 years.

The National Association of Credit Unions in Romania (UNCAR) was set up in 1990 and it is the main national organization authorized to provide support in everyday activities of the credit unions in Romania. It runs its activity through approximately 39 territorial units. It has currently seven employees and there are also 1,200 employees in the territorial units and credit unions.

UNCAR unites 2,000 credit unions. The estimated number of borrowers financed annually is 600,000/year and the estimated number of loans extended annually is of 650,000/year. The maximum loan size is of 7,000 EUR and the average loan of 800 EUR. Most of the loans are for consumption, but UNCAR representatives estimate that about 20 – 25 percent of the loans are taken by individuals - to finance income generation activities.

The main advantage compared to loans from other financial institutions is the fact that there are no other costs besides the interest rate. Also the members receive interest on the social fund they invest.

The main functions of UNCAR are:

1 Representation and supervision,
2 Methodological and technical guidance,
3 Organization and development of credit unions (facilitate the opening of outlets in rural/ urban areas),
4 Centralization of financial statements and submission of financial reports to the National Bank of Romania,
5 Supervision of financial performance/risk indicators (UNCAR does a quarterly review of the credit unions' financial indicators and taking of measures for improvement where necessary),
6 Funding of credit unions from a liquidity fund (from system sources),
7 Diagnosis of credit unions facing challenges and reorganization plan.

Since 2003, UNCAR started the financial supervision activity which had a positive impact on credit unions leading to an improvement in the financial performance of the organizations. In terms of non-performing loans, these are currently separated into two categories: loans overdue 30 days and loans under execution. At the National Union level there is an information system that works as an internal Credit Bureau and provides information on clients in default to all credit unions.

The credit unions represent an important source of funding for micro businesses or self-employed as they are able to provide low amounts of funds and in a short delay. This model has been successful in Romania for several reasons, including:

1 Strong association of the credit unions and competent employees in the credit unions,
2 Enabling legislative framework, including tax exemptions,
3 Start in the workplace, as associations of employees,
4 Economic and social aspects such as lack of access to other sources of funding and trust.

The drawback is that sources of funding for the credit unions are limited to members' contributions and credit union's own funds as externals sources are not allowed according to the Romanian legislation.

Potential challenges to the implementation of this model in other countries include:

- Lack of adequate legislative frameworks, including governance and management,
- Lack of transparency in reporting by credit unions,
- Unclear strategic direction of credit union associations,
- Political pressure,
- Lack of trained personnel,
- No regulations on membership criteria, monitoring and supervision,
- Lack of access to the financial and technical assistance programs financed by the European Commission, e.g. Progress and JASMINE.

42 Author: Diana Bialus and Maria Doiciu, Eurom Consultancy and Studies.

4.2 Products

Beyond the institutional variety, the European microfinance markets are characterized by a large diversification of the products offered and especially the underlying product features.

First of all, the majority of the European MFIs offers their microloans as individual loans (92%) or individual stepped loans (27%)[43]. Different to large and most prominent MFIs of the international microfinance market, group loan approaches play so far only a minor role in the European market (group loans: 8%: group stepped loans: 6%).

Furthermore, other important product features are the product's key characteristics: current average loan term and annual interest rate. The minimum microcredit loan term offered by an organization participating in the survey is six months or less and the maximum is seven and a half year. The most common current average loan term is around two years (28% of participating institutions) followed by three years (22% of participating institutions). Furthermore, 65 percent of the participating institutions have an average loan term three years or less. This outcome shows an increase of shorter average loan terms offered by the institutions covered, as in the previous edition only 50 percent of the institutions surveyed offered an average loan term three years or shorter. However, this development might be explained by the above mentioned increase of microloans disbursed in the Eastern European country due to an extension of microlending activities with a focus on the provision of working capital, as those loans are distinguished by lower individual credit volume and respective shorter average loan terms than their Western European counterparts. In addition, Table 10 (in Appendix) presents the current average loan term. Especially in the Eastern European countries with more developed microfinance sectors, such as Romania, Serbia or Bosnia-Herzegovina, the institutions offer shorter average loan terms.

Moreover, the average annual interest rate per country is presented in Table 10 (in Appendix) as well. The range goes from four percent in Austria, France and Italy up to 35 percent in Serbia. As a reference point, the average Euribor rate in 2011 was 1.4 percent[44]. The average annual interest rate for all institutions surveyed is around eleven percent, i.e. two percentage points higher than in the previous survey. The interest rates depend on legal framework and other environmental factors differing country per country in Europe. Such factors are the existence of usury laws, inflation rates, and different refinancing costs of the institutions, cost structure as well as financial sustainability[45]. For instance, the countries, i.e. UK or Romania, where usury laws are not in place, have higher average interest rates than countries, e.g. Germany, or the Netherlands with respective interest caps.

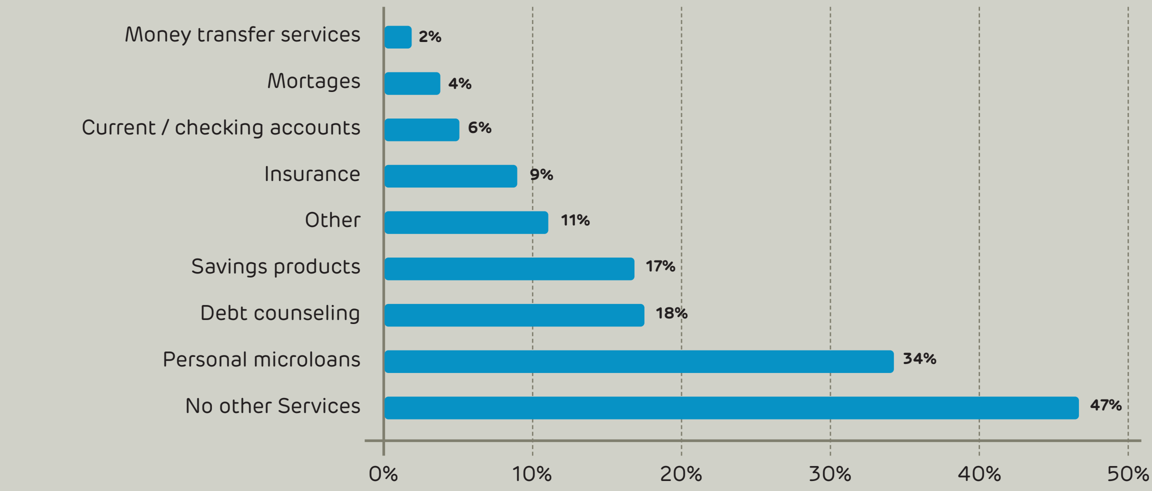
Microfinance in Europe refers mostly to the activity of micro-lending only for business or productive purposes. However, in the international community microfinance is conceptualized as three equal and coexisting pillars, the so-called "microfinance trinity" including credit for business and consumption reasons, savings and insurance[46]. Therefore, the survey requested the participating organizations to report on all other non-credit products and services they offer their clients. These services are money transfer services, mortgages, current/checking accounts, insurance, savings products, debt counseling, as well as personal microloans, with no or limited access to the formal banking market. Even though, the European microfinance sector is still dominated by the disbursement of business/ entrepreneurial loans, the supply of other products or services increases over the recent years. It is important to note that the offer of some of these listed financial products and services is restricted for non-banking, non-financial institutions and NGOs by respective legal frameworks in the countries (see country profiles in Appendix) e.g. non-banking financial institutions are not allowed to collect savings in the Netherlands or in Romania. Thus, not every institution acts in an environment in which it is able to decide by their own which financial products or services can be offered to their clients. Furthermore, the EC and all existing EU funded support instruments focus on micro-lending for business reasons only.

However, an overview of the other financial products offered by microfinance organizations in Europe is given in Figure 19 in total and in Table 11 (in Appendix) distinguished per country[47]. Remarkably, 47 percent of the institutions surveyed provide no other financial service than microloans for business purposes, which suggest a significant and gradient share of specialized micro-lending institutions in the European sector. The most prominent other product is personal microloans (with 34% of the organizations surveyed), followed by debt counseling (18 %) and savings products (17%).

43 The shares in percentage do not sum up to 100 percent, as it was allowed to give multiple answers in the respective question in the survey.
44 Euribor-rates eu (2012).
45 See a detailed description of these factors in EMN (2010). As these relationships have not changed since then, we limit our explanations to the description of the new data.
46 Armendáriz and Morduch (2005), p. 147.
47 The findings for the provision of Business Development Services (BDS) will be discussed in the following in this chapter.

Figure 19

Total share of other products / financial services



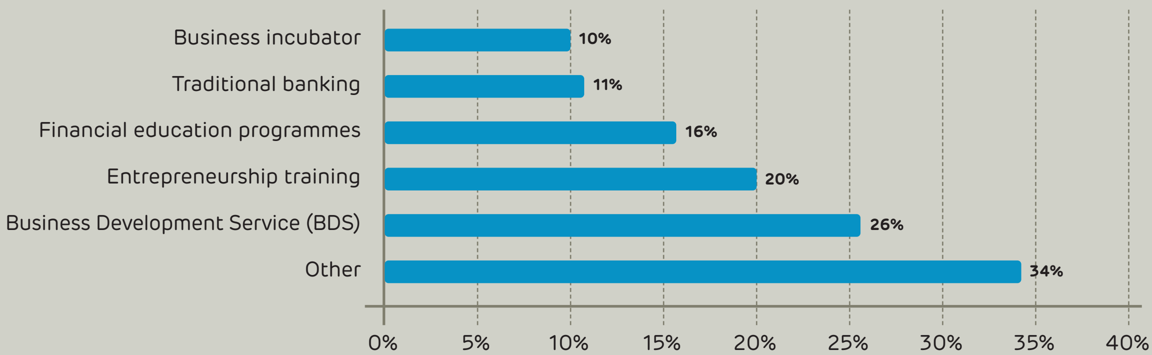
Note: N = 148; n = 99. The respective question allows multiple answers; the percentages above will not add up to 100%.

In total, 53 percent of the organizations covered provide any of the above mentioned other financial service products, which equals an eleven percent increase compared to the previous survey. From this, it can be derived that the relevance and outreach of such other financial services gained over the last years.

Beside these financial products and services (which might be summarized here under traditional banking services), the European MFIs provide as well several non-financial services, presented in Figure 20 and per country in Table 12 (in Appendix). Around one third of all MFIs covered do not offer any non-financial services. Among the remaining two thirds the categories "Other" with 34 percent and "Business Development Services (BDS)" with 26 percent are the most supplied non-financial services by the microfinance sector in Europe. Nevertheless, the remaining categories, such as entrepreneurship training, financial education programs and business incubators, are provided by the MFIs as well in significant shares[48].

Figure 20

Total share of main activities other than micro-lending



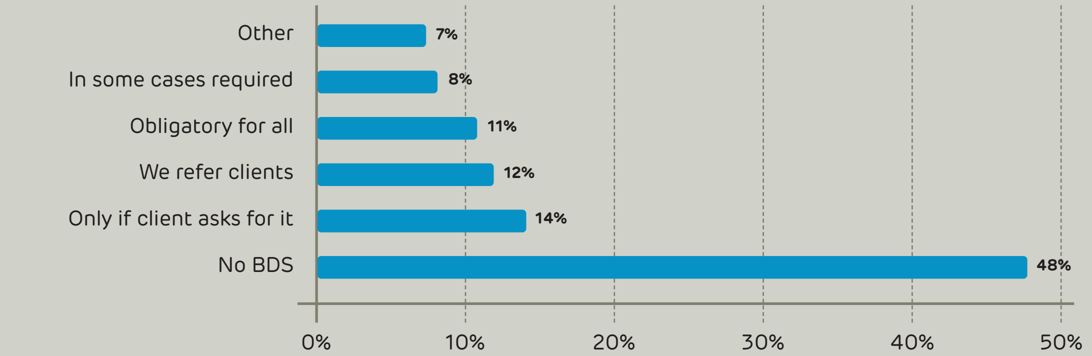
Note: N = 148; n = 145: 49 out of 145 institutions active in micro-lending only. The respective question allows multiple answers; the percentages above will not add up to 100%.

48 Remarkably, the MFIs were allowed here to tick every category which applies to their activities (i.e. multiple answers are allowed).

At least half of all MFIs offer BDS on a regular basis (Figure 21). This has to be understood in the context that microfinance and especially micro-lending is still seen as an effective measure to build up self-employment or respectively to reduce unemployment by policymakers on the EU level, but as well on the national level. 14 percent of the BDS offering MFIs use as the main BDS approach 'only if client ask for it', followed by twelve percent with 'we refer clients'. This indicates that the use of BDS is mainly not obligatory for the clients, as eleven percent of the MFIs report that BDS is obligatory for all their customers and 8 percent set this as a requirement in some cases.

Figure 21

Total share of BDS main approach

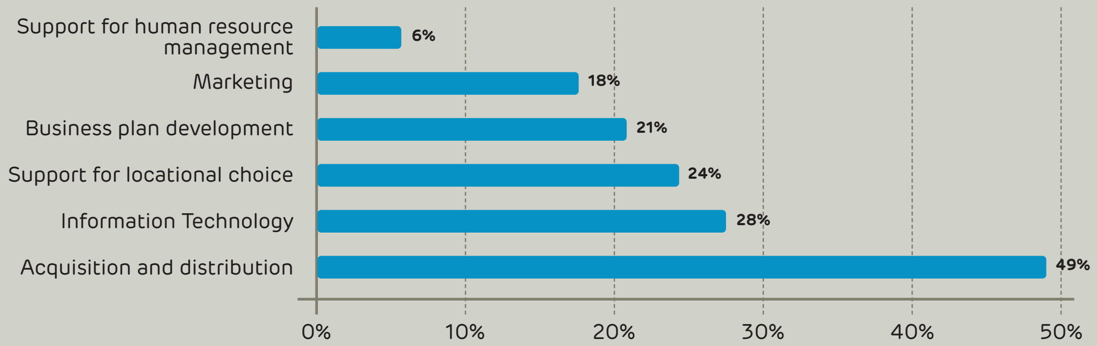


Note: N = 148; n = 122: 58 out of 122 institutions do not offer BDS.

The most important topic treated in the advice via BDS is acquisition and distribution (49%), followed by information technology (28%) and support for locational choice (24%) (Figure 22)[49]. This indicates that the support of the practice and day-to-day issues as a micro-entrepreneur is in the foreground of BDS support by microfinance organizations.

Figure 22

Topics of Business Development Service (BDS)

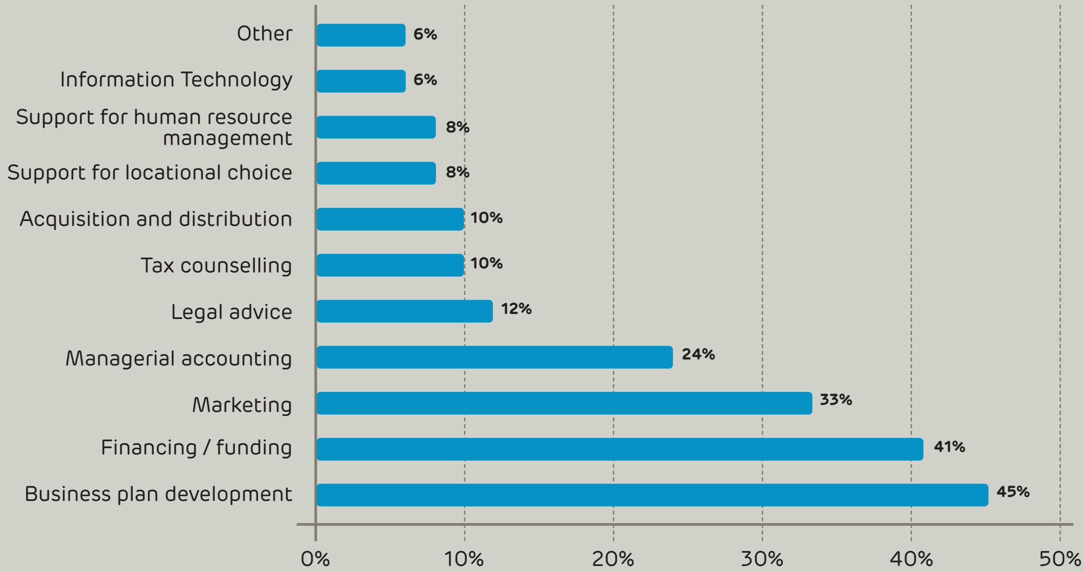


Note: N = 148; n = 120. The respective question allows multiple answers; the percentages above will not add up to 100%.

49 Important to note is that multiple answers were allowed here.

Figure 23

Share of BDS focus (key MFIs only)



Note: N (extended) = 69; n (extended) = 51. The respective question allows multiple answers, so that the percentages above will not add up to 100%.

Business plan development has the fourth highest share with 21 percent of all MFIs surveyed offering BDS. Furthermore, this outcome has the highest share with 45 percent of the BDS offered by the identified key MFIs, followed by finance/funding with 41 percent (Figure 23). This finding states that the development of a business plan and other more planning oriented issues as financing also play an important role in the offer of BDS by MFIs.

4.3 Lending Models

The differentiation of the European microfinance actors along institutional types and products and services offered allows only a limited insight into the variations of the actual micro-lending activity of these organizations. Based on the EU definition of microcredit very different approaches in terms of outreach to socially and financially excluded people, disbursed loan sizes and connectivity to formal banking can be summarized under the label of micro-lending. As a member based network, the EMN is aware of the limiting effect of this multitude of approaches on peer exchange and political advocacy for the sector.

Building on an already established distinction between different lending models in European microfinance[50] this edition of the EMN survey therefore proposes to distinguish microfinance providers into two peer groups that can each be aligned to a specific lending model (see Figure 1 in Section 2).

The first peer group, summarized as 'microenterprise lenders', targets the upper end of the microfinance market, the "nearly-bankables", i.e. start-ups, self-employed and microenterprises, which implicates a higher connectivity to the formal banking market and a more entrepreneurial motive to build up lasting microenterprises to promote the foregoing and modernization of the (regional or national) economy[51]. Those "nearly-bankables" have generally a need for relatively small amounts of external finance, but are not attractive customers for commercial banks due to lacking collateral or credit history, and prevalent information asymmetry. The people, who discussed micro-lending in this context, put microfinance in relation with existing structures and institutions in this field like promotional banks and credit institutes[52].

The second peer group, labeled as 'social inclusion lenders', targets the lower end of the microfinance market, the "non-bankables", which have no access to the formal commercial banking sector, mainly due to two reasons[53]. First, those "non-bankables" could mostly not achieve a sufficient credit scoring by a commercial bank due to no or negative collateral, no regular income flows, bad credit history, etc.

50 Jung et al. (2009).
51 Jung et al. (2009).
52 European Commission (2003).
53 Jung et al. (2009).

Second, they use micro-loans as a transition instrument from un- to self-employment; thus, they are in need of intensive accompanying business support.

However, the two approaches are not mutually exclusive, i.e. there exist overlaps and common approaches in micro-lending between these two 'more idealized' models. Nevertheless, it is useful to differentiate between these two, as in this way market segments can be established, which are feasible for the deduction of blueprints for institution building and sustainability approaches. Furthermore, it is important to note that microloans for business purpose might be issued under a microenterprise or social inclusion lending approach, whereas microloans for personal consumption purpose can be only provided under social inclusion lending (see Page 17).

To distinguish between these two peer groups, we propose the following proxy solution to categorize the MFIs surveyed into 'microenterprise' or 'social inclusion' lenders. As the basis for the calculation, the data of the average loan size of the MFIs surveyed functions with the following general assumption: the higher the average loan size is, the more is the proximity of the MFI to the formal banking sector or respectively the share of nearly- or bankable clients of the MFI. Thus, the loan amounts are typically higher in microenterprise than in social inclusion lending. Yet, the explanatory power of the indicator of the average loan size is limited, as the average loan size depends as well on the development of the country's economy, i.e. the certain value of a microcredit might be relatively higher in less developed countries (e.g. Bulgaria), than in more developed countries in Europe (e.g. France). Therefore, the average loan size per institution is adjusted by calculating the ratio of the average loan size and the gross national income (GNI) per capita and country[54], which differs due to the economy power of a country. Furthermore, different thresholds for the calculated ratios are used. For relatively high developed economies in Europe, categorized by more than 20,000 EUR GNI per capita (Western Europe excluding Portugal), the ratio of 0.33 is implemented as the threshold. With a ratio of 0.33 or less the MFIs are seen as social inclusion lender, above 0.33 they are categorized as microenterprise lender. The threshold ratio is set of 0.66 for the relatively less developed economies in Europe, categorized by less than 20,000 EUR Gross National Income per capita (Eastern Europe including Portugal). The latter one is comparably higher than for the Western European group, as on the one hand we assume that the relative costs for setting up a business in countries with a low GNI is comparable higher since the infrastructure for start-ups is less developed than in countries with a higher GNI. On the other hand, the access to the formal banking sector is more limited in these countries, so that the under- or unbanked segment of the market includes loan sizes that are relatively higher than in countries with a higher GNI.

28 percent of the MFIs covered do not report the average loan size in the survey. Among the remaining MFIs, 37 percent are categorized by the above explained methodology, as mainly microenterprise lending and 63 percent as social inclusion lending institutions. In comparison Figure 24 illustrates the categorization of the MFIs due to the two lending models per country. Hereby, it is important to point out that only 70 percent of the MFIs covered specify the average loan size, which is needed to distinguish between the two lending models. However, the outcome makes clear that in 12 countries the social inclusion lending approach is predominant among the MFIs covered (i.e. more than 50 percent of the MFIs emphasized this), whereas microenterprise lending only dominates the micro-lending activities in nine countries (as well more than 50 percent of the MFIs covered).

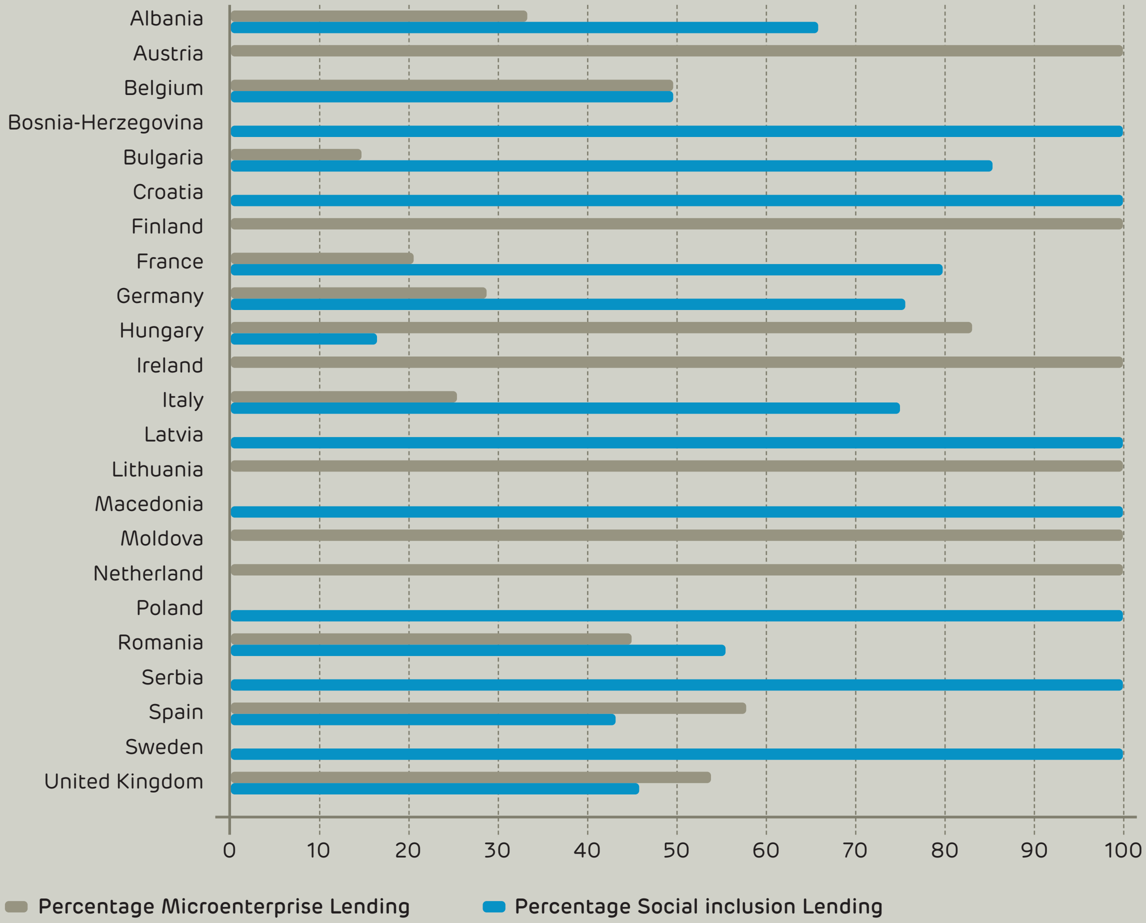
Figure 25 displays the distribution of the lending models due to the different institutional types of MFIs in the European microfinance market. Social inclusion lending is the most prevalent focus of most of the MFIs illustrated according to their forms of institutions, e.g. all microfinance associations, 91 percent of credit unions covered and 64 percent of the non-banking financial institutions. Surprisingly, the majority of the MFIs organized as banks or saving banks qualify as social inclusion lending. Microenterprise lending is the main focus with 64 percent only among the CDFIs. This might be explained by the fact that CDFIs are occasionally offering loans higher than the 25,000 EUR threshold of the EC definition, which induces that they are serving the upper end of the microfinance market. Furthermore, in the sub-sample of the MFIs which provide BDS services in addition to microloans 64 percent of these institutions were focused on social inclusion lending, whereas the remaining 36 percent emphasized microenterprise lending.

By looking at the sample of MFIs with the highest number of microloans disbursed for business purpose in the EU, the outcome shows that eight out of ten MFIs were focused on social inclusion. These were mostly characterized by non-bank financial institutions and microfinance institutions (three exemptions: two organized as banks; one as other organization specified as multi service provider), three for profit and three for non-profit (two left this category out), but five dedicate 75 up to 100 percent of their activities to micro-lending (two exemptions prevalent). Two MFIs are focused on microenterprise lending, both are large (national) promotional banks with no special focus on micro-lending (less than five or five to 25 percent their activities in micro-lending). Therefore, it might be wondered if the lending model with the factor 'social inclusion lender' has to be added as one of the relevant specifications of the above mentioned blueprints characterizing the specialized MFIs, which have so far realized a certain scale-up of their business models.

54 For more information see World Bank (2012). Here, we use the figures of GNI provided by the World Bank, measured in capita based on purchasing power in current international dollars. We transferred this into the unit of EUR using the exchange rate from December 2011.

Figure 24

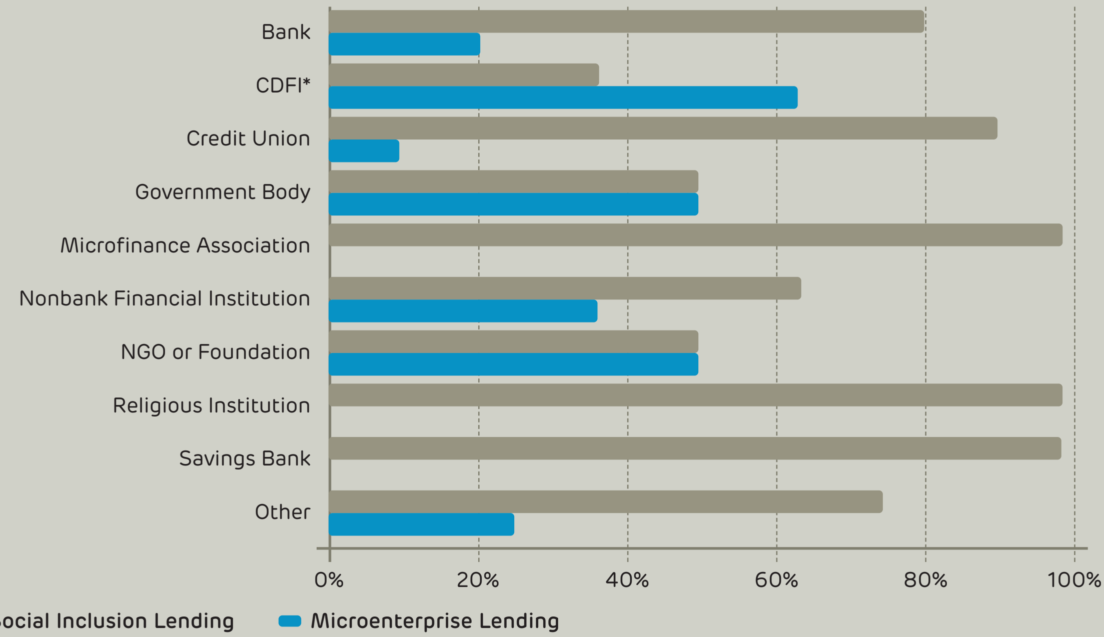
Distribution of lending models per country



Note: N = 148; n = 104.

Figure 25

Shares of lending models per institutional type



Note: N = 148; n = 105.

4.4 Funding for Microfinance

In the qualitative interviews conducted by the NCs the most important funding sources of the MFIs were discussed. Overall, it is observable that there is a wide range of funding sources in place in the active MFIs in the European microfinance market. This ranges from sources on the EU level to national, regional or local resources. The predominant sources are funds provided by public institutions and the local or state government. Another frequently mentioned source for funding is the commercial or savings bank sector. It is used both by Western European MFIs (e.g. Belgium, Netherlands, United Kingdom, France and Italy), and their Eastern European counterparts (e.g. Bulgaria and Albania).

Besides these national sources, the supply of European funding possibilities plays a key role in financing the European microfinance actors. Funds from the European Social Fund (ESF) were used to implement national microfinance initiatives in Italy and Germany. In addition, MFIs from Spain, France and Bulgaria were successful in securing funds from the European Investment fund (EIF) via the EPMF and from the European Investment Bank (EIB). The prevailing assessment of the EU funding programs by the experts interviewed in the qualitative interviews is generally positive, although the specific impact of the measures on the national sectors is rated differently. Criticisms were voiced with regard to the limited access to the funds and the focus on loans for job creation. An expert from the United Kingdom expressed his view on this, as follows: "EU funding is not good for startup organizations, but for existing, established organizations, there is nothing for BDS services and no use of EU funding other than job creation-related activities"[55].

For that reason and because of the growing importance of providing personal consumption loans to their clients, which is excluded from EU funding, the major source for funding of UK-based MFIs are funds from the commercial banks. In respect to this, one upcoming issue is the "drying up" of these funds from the banking sector due to the ongoing economic and financial crisis. A similar expectation is expressed by an expert from a French MFI: "The availability of public finance funding is the most pressing framework condition. It is very important especially in these times of economic crises"[56]. In Spain, a similar development could be observed: "Nearly 20 microcredit programs, mostly promoted by the savings banks, were active in 2008 at the peak of the expansion of the sector. By 2010 only a handful of financial institutions continued to provide microcredit in Spain"[57]. Therefore, one future challenge for the MFIs in these countries will be to find new ways to attract funds from other sources.

Another hindrance is that in several countries the micro-lending organizations are not allowed to attract savings, which would be a highly attractive and low cost funding source. For instance, this is the fact in Germany, the Netherlands and Romania due to the legal frameworks, which only allow registered banks to collect savings; so that these initiatives based their activities on commercial banks sources or public funds.

The financing of the provision of BDS services is another important topic in funding for microfinance. Just a few of the institutions interviewed have access to specific funding sources for BDS. For example, in the Netherlands BDS services are subsidized by the state government. The same is done in France, but there is a mixture of funding from different levels, the EU, the national and local government. In Macedonia and Albania grants are available for specific projects within microfinance activities as well, which can be the provision of BDS services.

55 The basis is a qualitative interview conducted with a representative of an MFI from the United Kingdom.
56 The basis is the qualitative interview conducted with a representative of an MFI from France.
57 The basis is the qualitative interview conducted with a representative of an MFI from Spain.

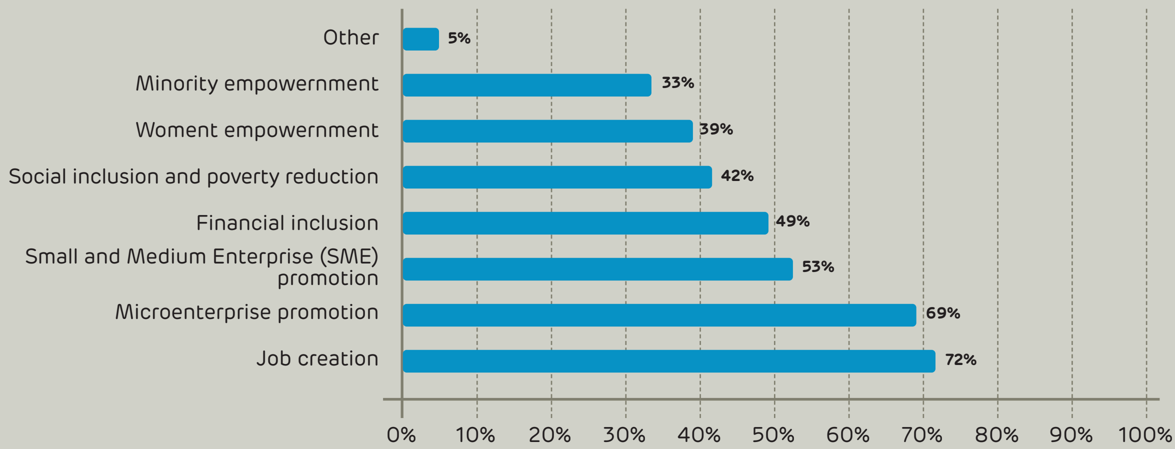
5 Social Performance

5.1 Mission

More than 90 percent of the institutions surveyed provided information of their mission. Figure 26 presents the overall outcome for eight different types of missions, whereas Table 13 (in Appendix) shows those outcomes per country[58].

Figure 26

Total share of different missions



Note: N = 148; n = 137. It is important to note that multiple answers were allowed here.

The most widespread mission of MFIs is job creation with 72 percent of all MFIs covered, followed by microenterprise promotion (69%). The next highest responses were small and medium enterprise (SME) promotion with 53 percent, financial inclusion with 49 percent and social inclusion and poverty reduction named by 42 percent of the participating institutions. Women and minority empowerment was specified by less than 40 percent of the MFIs covered.

58 It is important to note that multiple answers were allowed here.

Table 5

Share of mission statements per institutional type

Institution	Social Inclusion and poverty reduction	Job creation	Microenterprise promotion	Small and Medium Enterprise (SME) promotion	Financial inclusion	Women empowerment
Bank	30%	80%	90%	60%	40%	20%
Community Development Financial Institution (CDFI)	50%	94%	50%	56%	88%	50%
Credit Union / cooperative	43%	64%	64%	57%	29%	57%
Government body	33%	67%	100%	33%	33%	33%
Microfinance association	24%	65%	71%	65%	53%	41%
NGO or Foundation	43%	63%	0%	0%	0%	0%
Non-bank financial Institution	52%	74%	81%	41%	48%	59%
Other	21%	64%	50%	71%	21%	14%
Religious Institution	100%	50%	0%	0%	50%	0%
Savings bank	100%	100%	0%	25%	75%	50%
Total avarage	**50%**	**72%**	**51%**	**41%**	**44%**	**33%**

Note: N = 148; n = 137.

Table 5 shows the distribution of the mission statements per institutional type. The three most popular options, i.e. job creation, microenterprise promotion and small and medium enterprise promotion, are supported with a significant share by all institutional types. However, there is no structure observable in the distribution per institutional type.

Within the top ten MFIs (by number of microloans issued for business purposes) in the covered EU member states, the most prominent options as mission statements are microenterprise promotion (seven out of nine organizations, one has not provided the respective answers) and financial inclusion (seven out of nine MFIs), followed by job creation (six out of nine institutions). By combining these statements, one can deduct that the purpose of microcredit provision in a bigger scale is to support microenterprise development, the creation of new jobs and to increase the access to financial services for disadvantaged groups, which can be added as another dimension to the above already examined two institutional blueprints for micro-lending in the EU.

5.2 Target Groups' Outreach

In the previous edition, the MFIs covered were asked to report on their impact on the well-being and economic improvement of their clients. The results of this exercise proved to have limited validity and explanatory power, as it was based only on the view of the institutions' representatives and not on an assessment of any improvement perceived by the clients. To analyze this in a reliable way, the clients have to be asked directly for such information, or specific methods, like randomized evaluations, have to be used[59]. Most of the European MFIs are not carrying out such thorough impact evaluations of their programs with appropriate methods in use. The challenges to analyze and raise more knowledge about the social impact of the European microfinance sector are the establishment of common methods; the realization of studies carried out by independent research bodies and standardized implementations of impact evaluations in MFIs' strategic and budget plans.

Therefore, this survey edition has not included any self-assessment questions about the social impact of the MFIs' activities. Instead of that it emphasizes the MFIs outreach to the respective target groups to analyze the social performance of these institutions. The survey asked for the absolute numbers of loans disbursed (and respectively the monetary value) to respective target groups and not only for the overall share of the different target groups.

By distinguishing the access to finance this survey edition asked for the targeting of bankable or non-bankable clients among the loans disbursed for business and entrepreneurial purpose. Overall all lending institutions surveyed, we found that 53 percent of the loans disbursed for business and entrepreneurial purposes were provided to non-bankable clients, whereas the remaining 47 percent of the business microloans were issued to bankable customers.

59 Banerjee and Duflo (2011).

Furthermore, Table 14 (in Appendix) and Table 15 (in Appendix) show the outcome for the share of target groups regarding the number of loans disbursed in total and per country. The same is done for the institutional types and target groups in Table 16 (in Appendix).

Compared to the previous survey (with 32% of institutions covered target rural population), only 17 percent of loans disbursed were issued to persons living in rural areas in 2011. In general, the countries with the highest share of loans disbursed to rural population are the Eastern European countries, e.g. Bosnia-Herzegovina (66%), Croatia (50%), Bulgaria (41%) and Hungary (38%), which might be related to higher agricultural activities in those countries and the relatively higher poverty in the rural areas. MFIs in Western European countries are lending mostly in urban areas or have not reported the respective share in the survey questionnaires.

Taking the institutional types into consideration, the highest share of loans disbursed to the rural population were found among the NGOs or foundations (61%), followed by credit unions and cooperatives. Both are characterized by local based institutions and lending approaches.

In 2011, 38 percent of all microloans were disbursed to women, an increase of 11 percent from the figure of 27 percent in 2009[60]. This outcome fits into the picture of the previous surveys, e.g. in 2007 with 44 percent disbursed microloans to women[61]. As illustrated in the literature[62], the outcome of this edition finds as well significant differences in shares of loans disbursed to female credit recipients across countries (Table 14). The greatest share of microloans disbursed to women is found in Italy (58%), Croatia (53%) and Serbia (52%). The list of countries with the highest share of loans to women changed markedly compared to the results of the last edition of the survey which might be caused by the change in the questionnaires in regard to this information and the differing coverage of countries and institutions. The institutional types with the highest share of loans disbursed to female clients are the CDFIs with 50 percent, followed by non-bank financial institutions (45%), NGOs or foundations (42%) and microfinance associations (37%).

The share of microloans disbursed to clients below the poverty line[63] is the second lowest with 13 percent of all MFIs among the target groups covered in the survey. This goes in line with a remarkable low response rate for this information (answered by only 38 percent of all MFIs participated), so this result is to be treated cautiously. The biggest shares of microloans issued to recipients below the poverty line are found in the United Kingdom (68%), followed by Bosnia-Herzegovina (53%) and France (31%). Differentiated by institutional types, the CDFIs (mostly present in the UK) with 66 percent and religious institutions (only two covered) with 81 percent are the most prominent forms of institutions lending to clients below the poverty line.

Compared to the previous survey, an additional target group, named startup enterprises, was covered by the current edition. In general, 34 percent of microloans disbursed were issued to startup enterprises, whereas the highest shares of the loans to startup enterprises can be found among the MFIs in the Western European countries. Differentiated by institutional types, the highest share of microloans disbursed to startup enterprises were issued by the government bodies covered by the survey (only three respective institutions responded) with 84 percent, followed by the microfinance associations.

Another important target group of micro-lending activities in Europe are ethnic minorities and immigrants[64]. Similar to the previous survey (with 13%), 12 percent of the microloans were disbursed to ethnic minorities or immigrants in 2011. Compared to their distribution in the total European population, ethnic minorities and immigrants are overrepresented as micro-lending clients, as only 6.5 percent of the overall EU-27 member states population is resident non-national population[65]. The highest share of microloans disbursed to ethnic minorities and immigrants can be identified in Croatia (40%), followed by Austria (35%), Macedonia (29%) and Italy (26%). Ethnic minorities and immigrant clients were overrepresented as clients of religious institutions and savings banks, of which only a few institutions provided this information.

The target groups of welfare beneficiaries and clients graduated to mainstream finance were analyzed in Table 15. Around 22 percent of loans disbursed were issued to persons living fully or partly on welfare benefits in 2011. In general, the countries with the highest share of loans disbursed to welfare beneficiaries are located in the Western European countries, e.g. Belgium (100%), France (83%) and Spain (60%), which might be related to the more developed and pronounced welfare state systems in this area. In addition, on average 18 percent of the targeted clients were graduated to the mainstream financial market.

In addition, the clients outreach per lending model is presented in Table 6 in the following way, how many (in percentage) of the MFIs focusing on one of the lending models among all MFIs under this model. It is obvious that among the social inclusion lender was a higher share of MFIs targeting women with 56 percent (among microenterprise lender:

60 EMN (2010).
61 EMN (2008).
62 See e.g. Botti and Corsi (2011), Lämmermann (2011) and Corsi et al. (2006).
63 For the purposes of this survey, "poverty line" refers to those individuals whose income is 60% or less of the median household income.
64 For the purposes of this survey, "ethnic minority" refers to those individuals who are not a member of the national majority ethnic group. Their style of life and origin can differ from the majority. They may come from migrant, indigenous or landless nomadic communities. Immigrants are those individuals, not born in the country of residence. This definition was highlighted in the online survey tool.
65 Eurostat (2011).

39%), start-up enterprises with 51 percent (among microenterprise lender: 36%) and rural clients with 26 percent (among microenterprise lender: 21%). The same is surprisingly true for microenterprise lender with higher shares among the clients below the poverty line or respectively among ethnic minorities or immigrants customers than their social inclusion counterparts.

Table 6

Clients outreach per lending model

Lending Model	Women	Rural clients	Clients below the poverty	Start-up enterprises	Ethnic minorities or immigrant
Microenterprise	39%	21%	27%	36%	36%
Social Inclusion	56%	26%	22%	51%	31%

Note: N = 148; n = 105.

6

Financial Performance

6.1 Portfolio Quality

The most frequently monitored financial performance data are ratios, for instance portfolio at risk (PAR), measuring the portfolio quality. The process of the development of the European CoGC for Microcredit Provision[66] has shown that the key indicator in question would be PAR, both as ratio and as a value of loans at various days past due. MFIs in Europe use different types of PAR measures, especially in regard to how many days past due, for instance PAR 15 days due up to PAR 90 days due. Another important indicator, which is tracked by the majority of MFIs, is the ratio of loans written off.

However, this survey edition is the first to ask not only for the PAR ratio, but as well if the institutions really track this measure on a regular basis. Therefore, the MFIs were asked in a first step, if they track any type of PAR measure. In the survey 73 percent of all MFIs participated track their portfolio quality via a standardized PAR ratio. This outcome makes clear that the sector has professionalized over the past years, so that basic reporting standards, in this case for the portfolio quality, are regularly applied by the majority of micro-lending institutions.

In addition, the survey included the request for the PAR ratio of installments 30 days past due[67], as this is the internationally most practiced measure. In 2011, the average share of PAR over all countries was twelve percent (Table 7), i.e. four percentage points lower than 2009. Limiting the outcome of PAR on the covered EU member states, the average PAR was 15 percent, three points higher than among all countries covered. The highest PAR figure of an MFI was 40 percent and the lowest zero percent in the covered EU member countries[68].

Table 7

Average PAR and average write-off rates per country

Country	PAR 30	Write-off ratio
Albania	16%	9%
Austria*	ND	ND
Belgium	3%	0%
Bosnia and Herzegovina	2%	4%
Bulgaria	11%	2%
Croatia	10%	0%
Finland%	ND	ND
France	28%	10%
Germany	6%	7%
Hungary	15%	3%
Ireland*	35%	24%
Italy	4%	5%
Latvia*	ND	ND
Lithuania*	ND	ND
Macedonia	11%	2%
Moldova	2%	1%
Netherlands*	ND	1%
Norway*	ND	ND
Poland*	12%	ND
Portugal*	ND	ND
Romania	12%	6%
Serbia*	5%	3%
Spain	ND	ND
Sweden*	ND	ND
United Kingdom	27%	14%
Total	**12%**	**6%**

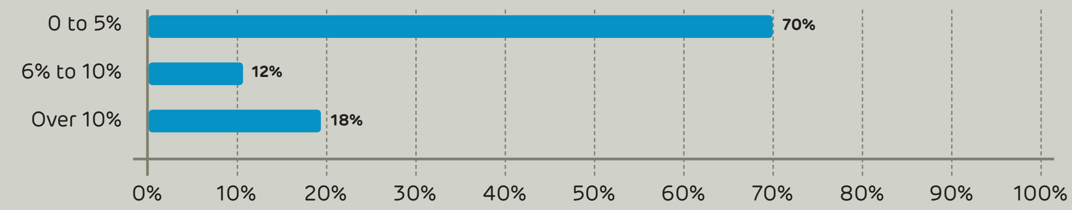
Note: N = 148; n (PAR30) = 60; n (Write-off ratio) = 73; * = only one institution observed.

In addition, the average write-off ratio[69] was six percent in 2011 for all countries covered (Table 7), i.e. 3.5 percentage points lower than 2009, and seven percent on average for the EU member states covered. The highest write-off ratio of an MFI was 34 percent and the lowest 0 percent in the covered EU countries. Figure 27 shows a similar distribution of the write-off rates compared to the previous survey edition. With 70 percent of the responding institutions in the 0-5 percentage range may still be related to the newness of the sector, as recent entrants (e.g. Germany has recently seen a high number of new entering institutions) were not able yet to declare any of their arrears as uncollectible.

Due to the above introduced lending models the average of PAR 30 days due was significantly higher with 14 percent of the gross outstanding portfolio among the microenterprise lender than with 10 percent among their social inclusion counterparts. Furthermore, the write-off rates on average for both lending models amounted to eight percent of the gross outstanding portfolio.

Figure 27

Write-off rates in size ranges

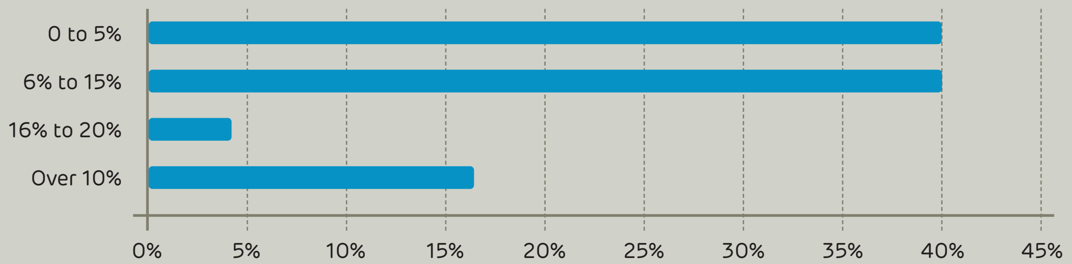


Note: N = 148; n = 73.

Only around every fifth MFI surveyed provided information regarding their amount of refinancing loans. Out of this, the refinancing ratio was calculated, as the share between outstanding amount of the loans refinanced and the total outstanding portfolio. The average refinancing ratio was 13 percent among the respondents (in the previous edition: 14%). Figure 28 displays the distribution of the refinancing ratio in size ranges.

Figure 28

Refinancing ratio



Note: N = 148; n = 25.

66 European Commission (2011).
67 Portfolio at risk (PAR) 30 days past due is defined as the ratio of the outstanding principal balance of all microloans past due more than thirty days and the average gross outstanding portfolio at 31 December 2011 (in percentage).
68 These MFIs are mostly issued a very small number of loans or begin their activities recently.
69 Write-off ratio refers to the quotient of the value of loans that recognized as uncollectible during period and the average gross outstanding portfolio during period (in percentage).

6.2 Other Financial Indicators

Additional to standard ratios for portfolio quality the survey included data requests for other financial indicators. A special emphasis was laid on the set of key MFIs as they present the part of the sector that has the closest links to European reporting standards that are connected with usage of EU funding instruments. The list of included indicators was compared with and informed both by the previous survey edition and the standards defined in the chapter 4 of the European CoGC for Microcredit Provision (see the Spotlight on page 55 as well)[70], which was developed and implemented recently by the EC. The outcome for selected indicators are presented here, as it provides useful information about the development of the sector due to the financial sustainability of the different institutions and lending models established in the microfinance market.

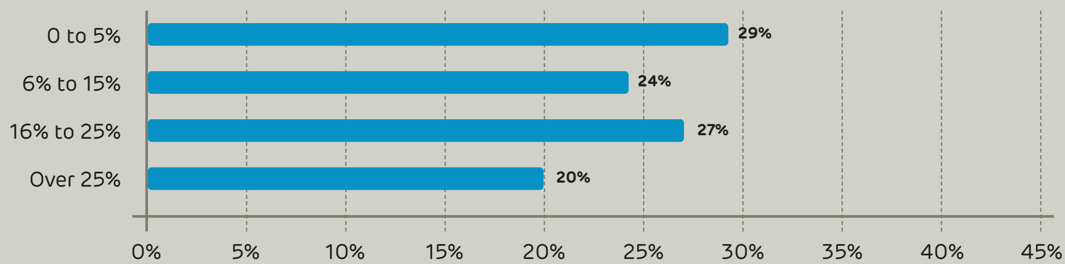
The response rates for these additional financial indicators were very low in the previous survey editions. A similar outcome has to state for this edition. However, more institutions provided the respective information than in previous surveys. This low response rate might be explained by two facts. First, the MFIs covered still reside at different institutional stages. There are several well-established and highly developed institutions, which use standardized indicators to manage their institutions, whereas several very small institutions exist in the market, which have more problems to provide such numbers. Second, a commonly shared approach to use and calculate such indicators is still lacking in the European microfinance sector. This leads to a situation that several institutions, which use indicators that deviate from the requested ratios and indicators, have to calculate these indicators exclusively for the survey. This is an additional workload, which could not be afforded by all the MFIs in the sample. With the European CoGC for Microcredit Provision a path to a shared reporting standard is visible, which, given that it is going to be implemented by a majority of organizations active in microfinance, could be the benchmark for the European microfinance sector in the future[71].

To facilitate the reporting of financial indicators by MFIs, this edition was the first to include requests for basic financial performance data, e.g. financial revenue, in a few cases instead of aggregated ratios, e.g. the operational self-sufficiency rate. This was done to be able to use the basic data to calculate the ratios for the institutions accordingly. As a lesson learnt for future editions of the survey, it will be necessary to further ease the reporting of financial performance data and ratios i.e. by reducing the numbers of financial indicators asked for, and to improve the practicability and calculation of the requested financial indicators. Based on these changes a further increase of the response rates to this section would most probably be achievable[72].

For the year 2011, 33 percent of the participating MFIs provided information regarding their portfolio yield[73] (Figure 29). Around 29 percent of the respondents earned income equivalent to between zero and five percent of their gross loan portfolio; 14 percent less than in the previous survey. Furthermore, in the higher earning size ranges the shares of the respondents increased significantly compared to the previous survey, which indicates more high performing institutions than compared to the outcome of the previous edition. For instance, instead of nine percent of the respondents in the previous survey earned in this edition each fifth of the respondent more than 25 percent of their gross loan portfolio.

Figure 29

Portfolio yield



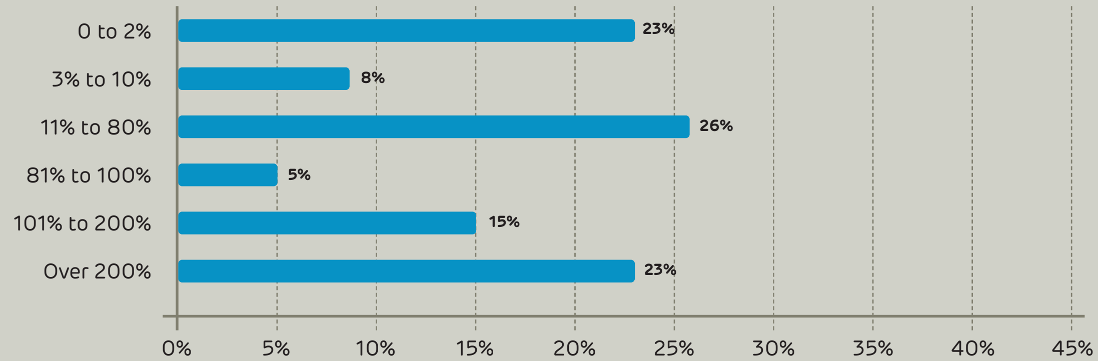
Note: N = 148; n = 49.

70 European Commission (2011).
71 The European Code of Good Conduct for Microcredit Provision is in the process of implementation. At the moment, it is tested with pilot institutions to prepare the final implementation stage.
72 The financial performance data for the implementation of the Code for the MFIs will be collected in an online-system called, JASMINE Online. To our knowledge, it is planned here as well to request basic financial data to calculate the respective ratios.
73 Portfolio yield was defined as the relationship between earned revenue (from interest earnings and fees) and the average gross outstanding portfolio during the respective period, measured here in percentage.

In almost the same manner as in the previous survey, 26 percent of the lending institutions surveyed supplied their debt and equity ratio[74] Figure 30). On the one hand, around every third of the responding MFIs have liabilities equivalent to less than ten percent of their equity; 19 percent of the respondents less than in the previous survey. On the other hand, instead of nine percent of the respondents in the previous survey, we found 38 percent of the respondents as significantly indebted lenders with a debt and equity ratio above 100 percent. This indicates that the European microfinance institutions are more indebted than two years ago during the previous survey.

Figure 30

Debt / equity ratio

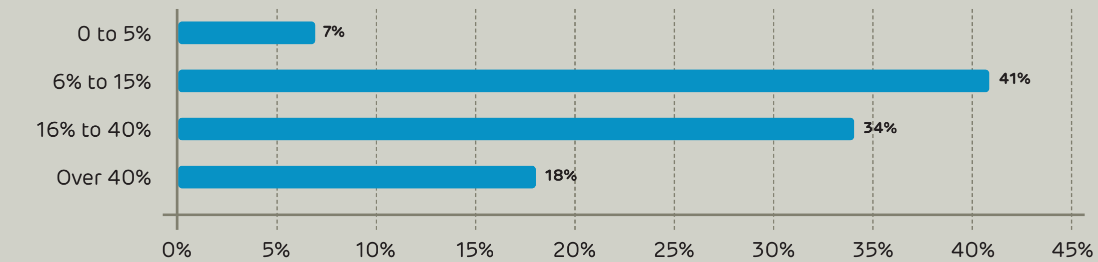


Note: N = 148; n = 39.

Around 30 percent of the respondents provided information regarding their operating expenses ratio[75] (Figure 31), three percent more than in the previous survey. The average operating cost over the gross portfolio is 25 percent, eleven percentage points higher than in the previous survey.

Figure 31

Operating expenses ratio



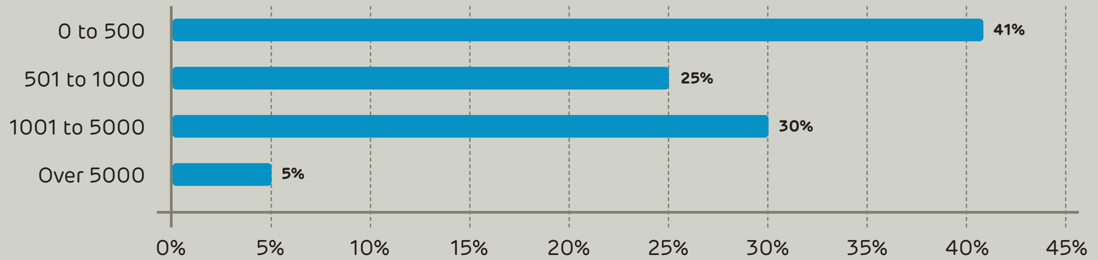
Note: N = 148; n = 44.

In addition to the previous survey, a question was included regarding the cost per borrower[76] (in EUR) (illustrated due to size ranges in Figure 32). Around 30 percent of the institutions surveyed provided the respective data for the cost per borrower calculation. More than two thirds of the institutions have average cost per borrower cost of 1,000 EUR or less. With 41% of the institutions responded the highest share is found for the range of 500 EUR or less among the covered size ranges.

74 The debt and equity ratio was defined as the share between total liabilities and total equity (in percentage).
75 Operating expenses ratio was defined as the quotient between the operating expenses during the respective period and the average gross outstanding portfolio during period (in percentage).
76 The cost per borrower indicator (in EUR) was calculated using the formula of the quotient between the operating expenses at December 31st, 2011 and the average number of active borrowers at December 31st, 2011.

Figure 32

Cost per borrower (EUR)



Note: N = 148; n = 44..

Spotlight

Awareness of the European Code of Good Conduct for Microcredit Provision

In 2011, the EC has presented the European CoGC for Microcredit Provision[77]. This Code was developed in close collaboration with a large number of stakeholders including representatives of the European banking and non-banking microfinance sector. Via the provision of recommendations and standards the Code aims to foster best practice in the European microcredit sector and to provide guidance for microcredit providers from the different points of view, including consumers, investors, funders and regulators. As a practical approach, this so far voluntary CoGC contains five different sections addressing customer and investor relations, governance, common reporting standards, management information systems and risk management.

At the moment a pilot phase for the implementation of the CoGC is going on, started in November 2011, with selected organizations, which have volunteered to participate in this exercise. Until the end of 2012 the objective of the pilot implementation is to identify implementation problems, discuss the necessity of the clauses and to collect good practice in complying with the clauses of the Code. Out of this, an update of the CoGC will be created and published in 2013.

With the development of the CoGC the EC is seeking to tackle the prevalent challenge of the European microfinance sector to establish sustainable MFIs that are able to provide microloans provision at a significant scale. The microfinance market is still need of good practice guidelines and common standards to increase the institutional capacities of MFIs, to improve the quality of the microcredit provision to clients and to enable the sector to attract additional funding from potential (private) investors. To support the valuable approach of the CoGC, this survey edition included questions to control for the MFIs' awareness of the existence of the Code and to ask then for their will to participate in such an initiative.

Overall, the response rates for these questions were reasonably high with 68 percent for the knowledge of the Code and 49 percent for the intention to apply for the implementation of the Code. 72 percent of the MFIs answered know the CoGC, which represents a high awareness of the Code among the European MFIs covered since its presentation in 2011. Table 17 (in Appendix) displays the knowledge of the CoGC per country. There exist high differences between the knowledge of the Code in the different countries. It seems that the knowledge in the MFIs located in the covered EU member countries is slightly higher than in their non-member counterparts.

Among the MFIs, which know the Code, 76 percent of them stated that they intend to implement the CoGC in the future. This indicates a generally high willingness of the European MFIs to take part in such an initiative to foster the sustainability and quality of the microcredit provision in Europe. Table 18 (in Appendix) shows the intention of the MFIs to apply for the Code per country.

In general, the survey outcome shows that the CoGC is widely known by the MFIs and their willingness to implement it is significantly high, even though the Code was published just recently. To transform this general interest into an active and broad participation of the sector will be the challenge of the coming months. The CoGC should only be able to promote the institutional development of the sector as a whole if it is accepted as a practical tool by the various types of microcredit providers active in the EU. It has a high potential to address the lack of institutional capacity in building and maintaining adequate sustainable microfinance operations. Furthermore, it might significantly improve the so far underdeveloped systems for particular financial performance measurement and missing culture of transparency and reporting in the European microfinance sector.

77 European Commission (2011).


SAVINGS

7 Trends in the Sector

The results of the survey show that between 2009 and 2011 the European microfinance sector as a whole was growing in terms of the number of loans disbursed. The growth is connected to an increase of organizations that operate on the national level and disburse more than 400 loans a year. This is a welcoming development for a sector that was, and in certain countries still is, characterized by small entities with only limited outreach.

In the past few years European microfinance providers were pushed into the spotlight of public policy, as the financial and economic crisis hit Europe and national policy makers looked for solutions to ease access to finance and to create jobs at the base of the labor market pyramid. Especially in Western Europe, microfinance was positioned as an important tool to counteract the effects of the ongoing crisis.

With the growing involvement of national policy makers into the issue some of the most ambitious schemes in the history of European microfinance were initiated over the last years. In Germany, a 100 million EUR fund for microfinance was set up to create a nation-wide network of microcredit providers that forward microloans at local, regional and national level. In the Netherlands a nation-wide alliance for microfinance led by Her Royal Highness Princess Maxima promoted the issue to a broader public and facilitated the creation of a national microcredit provider that strives for operational self-sustainability in the coming year(s). The effect of these national initiatives can be seen in the numbers reported for the respective countries in this survey.

The past years also saw a series of innovations in institutional forms and adaptations to legal requirements at the national level, e.g. in Germany where a sophisticated model of bank-MFI cooperation was established to realize microcredit provision on a broader scale despite a limiting national regulation on loan provision. In Poland a long-existing non-bank institution was transformed into a full fletched microfinance bank resulting in a strong increase in the number of loans disbursed. The observation of institutional innovation in some countries' micro-finance sectors is on the other hand embedded in the bigger picture of solidification of institutional blueprints in the European sector for microcredit provision on a bigger scale. It can be expected that the existing differentiation into bank institutions and non-bank institutions will further shape the institutional development of the sector. With this consolidation of institutional forms for microcredit provision there should be a growing potential for peer exchange on organizational preconditions for growth in microfinance activities in Europe[78].

The development of an EU wide CoGC for Micro-finance Providers is another element that will further promote the conversion of institutional and operational standards in the sector. The code was introduced by the EC this year as a tool to safeguard the quality of microcredit provision throughout Europe and will probably be a strong influence on the future activities in the framework of the EU funded JASMINE program.

At the national level the development of legal frameworks for microfinance provision was one of the main policy issues over the past two years and will continue to influence the sector with new or revised frameworks being announced in countries like Italy and Spain[79]. The uncertainty on the future shape of the legal environment for micro-lending in these countries already affects the possibilities for strategic planning of MFIs.

78 The EMN working group on growth is already working on a framework for peer exchange on growth strategies of European microfinance providers.
79 The EMN working group on legal environments and regulations monitors these developments on a regular basis and disburses the information in the sector.

The impact of the ongoing financial and economic crisis in Europe on microfinance activities was a central issue in the outlooks that representatives from MFIs voiced in the qualitative interviews. At the level of the general supply of microfinance in Europe, commercial banks are expected to further reduce their lending to excluded people as well as to small start-ups and microenterprises. From the viewpoint of the MFIs this is an opportunity to strengthen their outreach and to position microfinance as a complementary offer to commercial bank lending in European countries. Therefore, new alliances for client referral and integrated services between banks and MFIs are seen as a possible trend in the near future.

At the level of the demand for microfinance the rising number of unemployed people, especially in the Southern European countries, should allow MFIs to grow their operations. As many young, well educated people are now looking for alternatives to employment, a rise in self-employment figures is predicted in many countries. For a lot of MFIs this target group is new compared to that of excluded people or existing microenterprises. It is not yet clear how this growing focus on job creation through microfinance will influence the outreach of European microfinance to socially excluded people without access to the formal financial sector. It will remain an important task of the sector in the coming years to balance these missions and develop transparent ways to measure its outreach to the different target groups of microfinance[80].

With the growing importance of online applications in financial services, microfinance providers also see the need to adapt to this new distribution channel. Some microfinance organizations already started to implement online applications for their loans. The emergence of peer-to-peer lending platforms and other online based financing offers for consumers and self-employed persons will further diversify the market for small volume finance and challenge the business model of existing microfinance providers. The broad availability of new technologies for communication and service provision on the other hand creates new opportunities for the sector to support their clients e.g. with e-learning offers on entrepreneurial and financial literacy issues or mobile banking services that are already successful in developing countries[81].

The general public support for microfinance provision is expected to decline in the coming years, due to budget restrictions and high deficits at national and regional levels. MFIs prepare to react to this with developing more efficient and lean processes as well as by reducing the costs involved in providing microloans for entrepreneurial means.

Many of them are already looking for additional sources for funding. Yet, finding suitable funding is still a challenge for most European microfinance organizations. Especially fast growing organizations report a need for additional equity to secure lending operations and to collect funding at the formal financial market. The existing EU funding instruments are used widely by larger MFIs, but are reported to be of limited use to support small organizations to realize a substantial growth in operations. With the new funding period coming up in 2014, MFIs are anticipating a reduced availability of dedicated EU funds for microfinance. In the same time MFIs from candidate countries in Eastern Europe are looking forward to access EU funding instruments in the future.

With the outlook of limited future public funds for micro-lending activities a further diversification of microfinance products and services is on the agenda of many social inclusion lending organizations in the sector. The main focus lies on savings products as well as other products and services that allow financially excluded persons to ease the cash-flow of their households and to build up financial assets[82].

80 The EMN working group on social performance works on this issue and has developed a proposal to report on social performance indicators to enhance the transparency of the outreach of European microfinance providers.
81 The IT working group of EMN is already working on these issues and prepares insights into new trends in the usage of IT by microfinance providers.
82 The EMN working group on asset building works on this issue by establishing a regularly peer exchange between such institutions and build up knowledge on good practice approaches.

8

Country Profiles

Albania[83]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	3.195 (2011)
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	-
GDP per capita (current EUR; 2010)	2,740*
Unemployment rate (in %; 2011)	13.32*
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	-
People at risk of poverty or social exclusion (2010; 1,000 persons)	-

* Sources: For GDP per capita and unemployment rate, see: National Institute of Statistics (INSTAT), Bank of Albania (Central bank), Ministry of Finance of Albania, World Bank, IFC -Doing Business report 2011.

2. Legal Framework for Microfinance and policy initiatives

The Microfinance institutions in Albania, registered as Non-Bank Financial Institutions (NBFIs) - commercial companies, are operating under the supervision of the Bank of Albania (Central Bank of Albania). There is no specific legislation regarding microfinance, however the Law for Savings and Credit Associations" (Law No.8782, dated 03.05.2001 "For Savings & Credit Associations") is covering most of the microfinance activity in the country.

Within the last years specific regulations were issued by the Bank of Albania regarding the non-bank financial institutions, most of them applying to the MFIs, such as regulations related to:

- Reporting system for the non-bank financial institutions,
- Risk management in the activity of non-bank financial institutions,

83 Author: Maria Doiciu, Eurom Consultancy and Studies SRL, Senior consultant on SMEs and Micro-finance.
84 Data is not available for 2010.

- Regulation "on the granting of license to non-bank financial subjects",
- Regulation "on supervision of savings and credit associations and their unions",
- Reporting system of the savings and credit associations,
- Regulation "on licensing the savings and credit associations and their unions".

MFIs in Albania are allowed to issue credits and saving products and Credit Unions are allowed to issue credits and collect deposits from their members.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	5
Number of active clients:	40,070
Value of loans disbursed 2011 (in €):	48,825,604
Number of loans disbursed in 2011:	19,231[85]
- to women	23%
- to rural clients	9%
- to clients below poverty line	6%
- to Startup enterprises	-
- to ethnic minorities/ immigrants	
- for entrepreneurial / business purpose:	17,108
- to bankables	5,304
- to non-bankables	11,805
- for personal/ consumption purpose:	1,739
- to bankables	870
- to non-bankables	870

67% of the loans were disbursed to non-bankable clients, 23% of the loans were disbursed to female clients, 9% to rural clients and 6% to clients under the poverty line. As of the end of 2011, there were 19 NBFIs licensed and supervised by the Bank of Albania, 126 savings and loan associations and two savings and credit unions, delivering microfinance products. Lending to businesses continued to dominate in 2011, accounting for 90.1% of NBFIs' lending. The rest, 9.9%, represents lending to households. The composition of the loan portfolio by sectors of economy shows higher concentration in the trade and service sectors: 25.5%, followed by agriculture with 11.4% and construction with 11.3%[86]. The credit and saving unions are organized in two networks: Albanian Savings and Credit Union (ASCU) and Jehona Union. At the end of 2011, there were 42,485 active members of the credit union sector, their portfolio of financial products is 60.6% invested in agriculture followed by services and trade with 37.7%. Most of the financial services extended by MFIs in Albania, credits and savings are in local currency: Albanian Lek.

4. Outreach (incl. target groups and best-selling products)

In 2011 the Albanian NFBIs' total assets represented 2.7% from the Albanian financial sector, while the Credit and Saving Unions' total assets represented 0.41%. Micro lending followed by leasing were the main financial activities conducted by the NBFIs in Albania in 2010 and 2011. Financial self-sufficient MFIs conducting lending activities including microcredit continue to have the largest share in total NBFIs' assets, accounting for 47%, followed by financial institutions conducting financial leasing with 36.7%. There are branches of NBFI in almost all Albanian towns, targeting mainly entrepreneurs and micro-enterprises located in urban and peri-urban areas while the Credit and Saving Unions with 124 local units are covering both urban and rural areas. Financial products targeting start-ups and young entrepreneurs designed for small business are the best selling products.

Microfinance has a direct impact on job creation. Besides being self-employed, the borrowers usually employ family members in their businesses, unemployed, etc. According to the study carried out by Besa Fund jsc on its portfolio, one loan disbursed created 0.5 new full time jobs and 0.2 new part time jobs.

85 The number of loans reported in the survey summed up to 18,852 microloans in 2011. The author of the country profile was able to collect additional data; that is why we corrected the respective number above.
86 Bank of Albania.

5. Future Market Trends and Challenges

The objectives of the microfinance institutions in Albania are specifically defined by each institution. In general, the mid-term and long-term objectives of Albanian MFIs consist in:

- Increase client portfolio, financing more start-ups and newly established businesses with limited access to the finance by launching new products like micro-insurance, leasing, consumer loans, for clients located in the urban areas.
- Increase the outreach by opening new offices and providing microfinance services in new and rural areas, designing al extending financial products for agriculture.
- Maintain and improve the loan portfolio quality in the current context affected by the financial crisis, by improving the governance, the risk management system and procedure as well as the MIS.
- Diversification of financial resources for portfolio by initiating new partnerships and attracting new investors.
- Further development and capacity building of human resources that are considered as the main success factor of the microfinance institutions.

Sources used: Interview with Besa fund J.S.C 's director Prof. Ass. Dr. Altin Muça, Bank Albania.

Belgium[87]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	10.84
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	2.2 and 1.9
GDP per capita (current EUR; 2010)	29,000
Unemployment rate (in %; 2010)	7.6 (Dec. 2010)
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	11,678 (60% of median equivalised income)
People at risk of poverty or social exclusion (2010; 1,000 persons)	2,235

2. Legal Framework for Microfinance and policy initiatives

In Belgium there is no specific microfinance regulation. There is an interest cap, but it applies only to consumer loans. Tax incentives are scarce: private microfinance institutions (MFIs) operating as authorized cooperatives can have private individuals deduct a maximum of 180 EUR per year for all the dividends received by all authorized entities. Also, a tax deduction can be granted to private individuals that donate an amount over 40 EUR to the MFIs if the MFI is certified by the Ministry (SPF) of Finance and if the deducted amount is below 10% of the taxable net income and/or below 250,000 EUR for the same taxable year.

The only corporate tax reduction is for all cooperatives recognized by the National Council for Cooperation and entities (except holding companies, subsidiary companies and companies that do not allocate remuneration to one of its director), whose taxable income does not exceed 322,500 EUR.

Concerning guarantee schemes, the Walloon Regional government has created one: it can act as guarantee for a commercial bank loan under 25,000 EUR granted by a traditional bank.

The "Central database for loans to private individuals" is managed by the National Bank of Belgium and concerns mortgage, consumer loans and overdrafts superior to 200 EUR except overdraft facilities repayable in one month. Therefore, only MFIs that provide consumer loans are required to inquire about the borrower credit history and need to report these loans to the database.

A Bill adopted in March 2012 obliges banks to report any loans - the previous 25,000 EUR threshold has been canceled – granted to microentreprises (MCEs) to the "Central Corporate Credit Register".

Sources: TrustLaw (2011), Qualitative Interviews.

87 Authors: Annika Cayrol and Olivier Jérusalmy, Réseau Financement Alternatif ASBL (RFA).

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	2
Number of active clients:	78
Value of loans disbursed 2011 (in €):	8,900,328
Number of loans disbursed in 2011:	460
- to women	47%
- to rural clients	-
- to clients below poverty line	-
- to Startup enterprises	78 %
- to ethnic minorities/ immigrants	-
- for entrepreneurial / business purpose:	460
- to bankables	216
- to non-bankables	345
- for personal/ consumption purpose:	-
- to bankables	-
- to non-bankables	-

There are five microcredit institutions in Belgium: Crédal, microStart, Hefboom, Brusoc and the Fonds de Participation. The first three are groups of entities, including credit cooperatives and ASBL (non-profit associations), whereas the last two are governmental entities. Sowalfin, another microfinance actor, does not grant microloans but can guarantee loans under 25,000 EUR. Credits proposed by the actors are mainly business-oriented loans, to entrepreneurs and small companies, however, one operator, Crédal, also provides consumer loans. There is no competition between MFIs and banks in Belgium. They rather have good relationships, for example, there are collaborations between MFIs and bank foundations.

The quantitative data survey only reports answers from two operators, therefore the following data concerns only limited part of the Belgian market. According to the survey, the number of active borrowers in 2011 is 78, the number of loans disbursed 460 and the amount granted is 8.9million EUR to business companies, around half to bankable and half to non-bankable entities.

Sources: Quantitative Data, Qualitative Interviews.

4. Outreach (incl. target groups and best-selling products)

MFIs in Belgium aim to reach mostly the bottom of the pyramid – people excluded from the mainstream banking system. It seems that in the majority of cases, the target group matches the aimed target group. Some products are aimed specifically at women or younger entrepreneurs, but they do not seem to add up to many loans.

MFIs reach beneficiaries mainly through the "Centre Public d'Action Sociale - CPAS" (Public Centre for Social Welfare) and debt mediation organisations referrals, but also via their own internet sites and word of mouth.

The most successful products remain business loans since consumer loans are only offered by one provider on the market.

Sources: Qualitative Interviews (Quantitative Data).

5. Future Market Trends and Challenges

Interviewed microcredit actors mention as their future goals three main elements:
1) reach the most excluded, that is answer potential demand for credit not covered by the traditional banking system,
2) scale up the activities and
3) finally, but not in the near future, achieve financial sustainability.

However, if it is the microfinance sector as a whole that is considered then the picture differs. Microcredit is only one aspect of the microfinance sector and not the most important one according to some observers. Microsavings and budget management can be much more important. In Europe and in Belgium, an increasing number of citizens use inappropriate credit and overindebtdness is therefore rising. It is crucial to improve the capacities of underprivileged people to manage a budget and begin healthy saving habits.

Microcredit and personal consumer microcredit remain interesting tools to create employment or help people during life accidents but the real societal need is to incite low-income populations to save and to learn to budgetise more wisely.

Sources: Qualitative Interviews.

Bulgaria[88]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	7,563,710
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	0.4 (2010) and 1.7 (2011)
GDP per capita (current EUR; 2010)	4,800*
Unemployment rate (in %; 2010)	11.2 (2011) *
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	41.6*
People at risk of poverty or social exclusion (2010; 1,000 persons)	3,145

*Sources: National bank of Bulgaria, Eurostat, World Bank, IFC -Doing Business report 2011.

2. Legal Framework for Microfinance and policy initiatives

The legal framework for microfinance in Bulgaria is defined by the Credit Institutions Act, the Cooperative Act and the Government Ordinance 26/2009 on Financial Institutions. Banks and Credit cooperatives are licensed and supervised by the Bulgarian National Bank.

The Credit Cooperatives are providing a larger range of financial services, including saving products and microcredit.

All financial institutions operating in Bulgaria, including MFIs are registered by the Bulgarian National Bank and are reporting their operations on a quarterly basis and are participating with data to the Credit Bureau. There is no usury rule or interest caps on the micro-lending activity. The financial institutions are not authorised to collect savings, the credit portfolio is financed from donations, loans and investments.

The overall legal framework has a positive impact on the sector due to the light supervision from the Central Bank and mainly due to the access to information provided by the Credit Bureau, which allows for a better assessment of risk and avoidance of the over-indebtedness of the clients. There are no recent changes in the Bulgarian legal framework for microfinance activities.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview	
Number of survey participants:	8
Number of active clients:	1,788
Value of loans disbursed 2011 (in €):	3,605,714
Number of loans disbursed in 2011:	1,437
- to women	50%
- to rural clients	41%
- to clients below poverty line	3%
- to Startup enterprises	5%
- to ethnic minorities/ immigrants	8%
- for entrepreneurial / business purpose:	1,084
- to bankables	765
- to non-bankables	319
- for personal/ consumption purpose:	444
- to bankables	292
- to non-bankables	153

88 Author: Maria Doiciu, Eurom Consultancy and Studies SRL, Senior consultant on SMEs and Micro-finance.
89 Data is not available for 2010.

75% of the loans extended were business loans, 29% of the business loans were disbursed to non-bankable clients, 50% of the loans were disbursed to female clients, 41% to rural clients, and 3% to clients below the poverty line, 5% to start-ups and 8% to ethnic minority clients. Most of the microfinance institutions were established as pilot projects by international donors almost 20 years ago, re-registered as non-bank financial institutions or credit cooperatives and soon the legal framework evolved.

The banking sector downscaling strategy re-launched the competition for the creditworthy clients that affected the sustainability of medium-sized MFIs. The demand for credit was severely affected by the financial crisis and uncertainty. However there is growing demand from start-ups, who try to take empty niches left by the over-indebted and down-sized companies.

4. Outreach (incl. target groups and best-selling products)

Pursuing their social and inclusive mission, the Bulgarian MFIs are targeting the entrepreneurs belonging to vulnerable groups: women, unemployed, youth, poor, etc. financially excluded rural and peri-urban population, aiming to support and finance income generation activities, employment and entrepreneurship development.

Over the last years, the financial crisis challenged their mission and the sustainability of their operations, the portfolio quality diminished as well as the number of loans extended. Among the copping strategies, the Bulgarian MFIs are providing BDS services e.g. debt management training for clients and potential clients belonging to vulnerable groups, more adequate monitoring procedures of the clients, etc. Furthermore, the demand for investment loans has diminished; currently short term loans for working capital extended to microenterprises are among the best selling products of the MFIs. The loan terms are adapted and adjusted to the clients' needs.

5. Future Market Trends and Challenges

In the absence of a national policy to support the private sector development, mainly the micro and SMEs sector, the main challenges for the MFIs over the following period are to improve the portfolio quality and the financial sustainability of their operations.

Training and development for the MFIs personnel, improvement of the Management Information Systems are among the challenges faced by the MFIs in Bulgaria.

Technical assistance received from JASMINE program as well as the financial resources provided by EC's Progress facility, have had positive impact on the recipient MFIs.

Sources: Interview with Georgi Breskovski -MIKROFOND AD's executive director, Petar Arnaudov- NACHALA 2007 EAD's CEO and Pavel Velev- Ustoi JSC's Executive Director.

Croatia[90]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	4,425,747
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	-1.4 (2010)[91] and 0.0 (2011)[92]
GDP per capita (current EUR; 2010)	10,200*
Unemployment rate (in %; 2010)	13.5 (2011)[93]*
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	31.3*
People at risk of poverty or social exclusion (2010; 1,000 persons)	1,321

* Sources: Croatian National Bank (Central bank), World Bank, IFC -Doing Business report 2011.

2. Legal Framework for Microfinance and policy initiatives

The **Banking law** regulates the conditions for the establishment and operations of a bank, as well as for the discontinuation and supervision of bank operation and the **Credit Institution Act,** promoted in September 2008 governs the conditions for the establishment, operation and dissolution of credit institutions with registered offices in the Republic of Croatia, as well as their prudential supervision.

There is no specific regulation for microfinance institutions or non-bank financial institutions and the credit unions' financial services are considered as microfinance or inclusive finance. According to the current legal framework the credit unions are limited in the extension of financial services to members located in the county of registration. Most of the credit unions are registered in Zagreb and due to this limitation are facing financial difficulties.

The license to operate as financial services providers was withdrawn in 2008 to MFIs established in early 2000 with the support of international microfinance NGOs, e.g. DEMOS. There are initiatives to promote a new legal framework, or to amend the existing one, in order to create an enabling environment for inclusive finance and microfinance.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview	
Number of survey participants:	2
Number of active clients:	875
Value of loans disbursed 2011 (in €):	781,894
Number of loans disbursed in 2011: - to women - to rural clients - to clients below poverty line - to Startup enterprises - to ethnic minorities/ immigrants	190 53% 50% 25% 8% 40%
- for entrepreneurial / business purpose: - to bankables - to non-bankables	95 21 74
- for personal/ consumption purpose: - to bankables - to non-bankables	95 19 76

90 Author: Maria Doiciu, Eurom Consultancy and Studies SRL, Senior consultant on SMEs and Micro-finance.
91 Temporarily.
92 Temporarily.
93 Data is not available for 2010.

At the end of 2011, there were 875 active clients in the portfolio of the two reporting financial institutions, only one of them registered as a credit union is extending loans under the current legal framework, the other one a former MFI is collecting the loans extended before the change of the legal framework.

50% from the 190 loans extended in 2011 were business loans, 79% of the loans were disbursed to non-bankable clients, and 53% of the loans were disbursed to female clients, 50% to rural clients and 25% to clients under the poverty line, 8% to start-ups and 40% to ethnic minority clients.

In Croatia, at the end of 2011, there were registered and operational: 30 commercial banks, one saving bank and 24 credit unions.

4. Outreach (incl. target groups and best-selling products)

Currently the Credit Unions are providing microloans for income generating activities and consumer loans to over than 75% of the non-bankable clients.

Access to finance from banks is difficult especially for small and micro enterprises, until 2009 the MFI in Croatia: DEMOS, NOA and Micro+, all founded by USAID, were the main providers of microfinance and inclusive financial services to entrepreneurs, micro-enterprises and individuals below the poverty line.

Those MFIs first and foremost offer access to personalized financial services with flexible conditions. According to the Doing Business report, access to finance in Croatia rank (48) is the most difficult in the region compared to Romania, Bulgaria and Poland ranked 8 and twice more difficult than in Macedonia and Albania ranked 24. Working capital loans and other types of financial products for business development are still difficult even for well performing small businesses.

5. Future Market Trends and Challenges

The main challenge of the Croatian MF sector is the creation of an enabling legal framework for microfinance provision. With the context of country accession to the European Community and the new EU microfinance funding and technical assistance facilities: Progress and JASMINE, available for MFIs this goal has higher chances to be achieved.

Other challenges of the sector are related to the lack of collateral of the potential clients, designing of new financial products using group lending methodology, establishment of guarantee funds and extension of financial products to the underserved rural population, unemployed population, start-up businesses, etc., population which banks are not interested to finance are the goals of the MFIs in Croatia.

Sources: Interview – DEMOS Croatia ' s executive director, Josip Borzic, Croatian National Bank, SMEs' access to finance 2011 survey – EC , DG Enterprise and Industry.

France[94]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	64,694 millions
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	1.7 (2010) and 1.7 (2011)
GDP per capita (current EUR; 2010)	29,900
Unemployment rate (in %; 2010)	9.7
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	13.3 (percentage of total population) = 8.6 millions
People at risk of poverty or social exclusion (2010; 1000 persons)	11,693

2. Legal Framework for Microfinance and policy initiatives

Banks as well as non-bank financial institutions provide microcredit: Cooperative and commercial banks regulated under banking law, non-profit associations authorized under the Monetary and Financial Code (article L.511-6-5 and articles from L.518-57 to L.518-64). Examples of the latter are notably ADIE, Créa-Sol and Caisse sociale de Bordeaux. Both types of institutions are supervised by the Authority of Prudential Control (APC) and have the right to access credit history databases (FCC, FICP). Deposit taking is a monopole of the banking sector.

The development of the legal framework over the last 10 years had a very favorable influence on the microcredit sector, especially regarding **funding of credit resources:** Since 2001 (law: New Economic Regulations) authorized non-bank financial institutions are allowed to borrow for lending to the unemployed, social welfare recipients; and since 2008 (law: Modernization of the Economy) also for lending to enterprises with up to three employees, up to five years after creation as well as for integration projects (e.g. driver license to find a job). This authorization, subject to regular controls, is valid for an undetermined period of time and delivered by APC. Since 2007, non-bank financial institutions also have access to interest free loans of duration of up to two years granted by individuals. In addition to these funding sources, non-bank financial institutions finance their credit resources by loan funds from public authorities, and own funds.

A major part of **operational expenses** are covered by the state and local government. In addition, there are EU structural funds (in especially ESF), private enterprises, donations from individuals as well as revenues generated by interest rates on credits.

Guarantee schemes are available on several different levels and well developed. Banks as well as non-bank financial institutions have access to guarantees by the Fonds de Garantie de l'Insertion par l'Economique, the European Investment Fund and in some cases, partner banks, own funds and the borrowers. An important role plays the Fonds de Cohésion Sociale (75 million Euros) created in 2005 (Loi n° 2005-32 du 18 janvier 2005 de programmation pour la cohésion sociale), managed by the Caisse des Dépôts et Consignations. It guarantees microloans for entrepreneurial as well as consumption purposes. Moreover France active offers interest free credits (French: prêts d'honneur) in order to allow microentrepreneurs to access complementary credit from other organisations.

Not only on the supply, but also on the demand side, the development of regulations, i.e. the **simplifications of the process of founding an enterprise** (2009: status auto-entrepreneur) has greatly bolstered the microcredit market.

Moreover microcredit has been integrated in the bank statistics and the idea exists to oblige banks to engage in microcredit activities.

Sources: TrustLaw (2011), Qualitative Interviews.

94 Author: Jonas Heipertz, Paris School of Economics.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	9
Number of active clients:	52,074
Value of loans disbursed 2011 (in €):	165,250,309
Number of loans disbursed in 2011:	28,690
- to women	37%
- to rural clients	11%
- to clients below poverty line	31%
- to Startup enterprises	53%
- to ethnic minorities/ immigrants	6%
- for entrepreneurial / business purpose:	22,542
- to bankables	7,890
- to non-bankables	14,652
- for personal/ consumption purpose:	6,148
- to bankables	410
- to non-bankables	5,738

The demand for microcredit, both for entrepreneurial purpose (French: microcredit professionnel) as well as integration project, such mobility, further qualification, job search etc. (French: microcrédit personnel), is high. The microcredit for consumption purposes experienced higher growth than the microcredit for entrepreneurial purposes, which was rather stable in recent times, and is also offered increasingly by the banking sector. The microcredit for entrepreneurial purposes however remains with 79% in both number and volume the core business. Non-bankable clients are in clear majority in terms of number as well as value of loans disbursed in 2011 (microcrédit professionnel: 65%; microcrédit personnel: 93%). The average loan size in the sample is about 6.615 EUR independent bankability and form of credit.

Looking at the **supply side**, microcredit for entrepreneurial purposes is offered mostly (if not exclusively) in junction with business development services (BDS). These are either provided by the same institution, as it is the case for ADIE, France Initiative, France Active or in a partnership as it is the case for Créa-Sol partnering especially with France Initiative. Beyond that, also Chambres of commerce, Chambres des métiers, Boutiques des gestions provide BDS. ADIE remains the only microfinance institution with national coverage; Créa-Sol however is planning to expand activities to the whole country in coming years.

The **relation to the traditional banking sector** is generally very cooperative, although the banking sector becomes increasingly active in the market for the microcredit for consumption purposes.

Sources: Quantitative Data, Qualitative Interviews.

4. Outreach (incl. target groups and best-selling products)

The largest client group consists of unemployed persons, whereas target groups are generally broader defined including all persons living in precarious conditions and economic and social exclusion. Across the sector, the share of financed microenterprises amounts to more than the half of total number of loans disbursed in 2011 (At Créa-Sol about 90% of clients were formerly unemployed). About half of the loans were disbursed to clients below the national poverty line, at ADIE more than 50% of new clients since 2011; 40% of loans were disbursed to women and about one of seven clients is part of an ethnic minority or immigrant. While this target groups are expected to remain at the core, emphasis on subgroups might change (at ADIE: In 2007 young clients, in 2013 seniors).

Sources: Qualitative Interviews (Quantitative Data).

To assess the social impact, institutions apply several measures: At ADIE in addition to continuously monitoring if target groups are still reached, a formal impact assessment is performed all three years taking into account total number of jobs created in addition to self-employment, survival rate, level of revenues etc.

The most successful product is the microcredit integrated in BDS. This is generally very flexibly adaptable in terms of amount and repayment period and the focus of product strategy lies on further adaption.

5. Future Market Trends and Challenges

In the future **social performance and growth** are seen as very important. It is observed that increasingly **young, good qualified persons** setting up companies are demanding microcredit. Addressing microcredit to this market segment is rather new, but could be an opportunity for growth. Raising awareness on entrepreneurship and especially microcredit already in school and university is one way to foster this development. However, one of the most pressing challenges at present time of economic crisis poses the limited public budget and the weak financial sustainability of the microfinance sector (, a common feature to the West-European countries. Thus, **acquisition of subventions is very difficult**, but considering the high dependence highly relevant.

Moreover, projects on developing a saving product are being considered. ADIE, for instance, aims at creating the opportunity for microcredit clients to accumulate (instead of giving at once) the caution that is obligatory to receive a microcredit. Also Créa-Sol has started considerations in this regard. At this point in time there are not yet common norms of reporting at national level. A first step in this direction, eventually also contributing to measuring and increasing the social performance, could be the Code of Conduct by the European Commission.

Source: Qualitative Interviews.

Germany[95]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	81,802,257
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	3.7 (2010) and 3.0 (2011)
GDP per capita (current EUR; 2010)	30,300
Unemployment rate (in %; 2010)	7.1
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	15.6
People at risk of poverty or social exclusion (2010; 1000 persons)	19.7

2. Legal Framework for Microfinance and policy initiatives

In Germany there is no specific law on microcredit provision. For all credit provision, the German Banking Act applies. Any regular granting of loans with business or personal purpose requires a banking license.

Due to the **banking monopoly**, organisations called microfinance institutions (MFIs) cooperate with the ethical-ecological GLS bank. MFIs (these could be business advice organisations, start-up centers or local business support initiatives) have to do all microcredit servicing and monitoring while GLS bank administers the loans. MFIs are not regulated.

They have joined together in **Deutsches Mikrofinanz Institut (DMI)** and comply with quality and control mechanisms which are monitored by DMI. All MFIs need to get accredited by DMI. The quality rules of DMI are currently being aligned with the EU Code of Good Conduct.

The federal public development bank **KfW** and the public banks of the German federal states **(Landesförderinstitute - LFI)**, some of which also have microcredit programmes are regulated according to banking law and thus act according to **Basel II rules**.

95 Author: Stefanie Lämmermann, Deutsches Mikrofinanz Institut (DMI).

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	33
Number of active clients:	3,932
Value of loans disbursed 2011 (in €):	187,986,627
Number of loans disbursed in 2011:	11,231
- to women	8%
- to rural clients	1%
- to clients below poverty line	4%
- to Startup enterprises	38%
- to ethnic minorities/ immigrants	8%
- for entrepreneurial / business purpose:	11,106
- to bankables	6,100
- to non-bankables	5,007
- for personal/ consumption purpose:	125
- to bankables	83
- to non-bankables	42

There are two models of microfinance provision: a) a "cooperation model" which focuses on "non-bankable" clients and; b) a "bank model" primarily serving the "bankable" segment of the population.

The "cooperation model": Based on several pilot initiatives since 2004, in January 2010, the 100 million EUR microcredit guarantee fund **"Mikrokreditfonds Deutschland"** has been set up with government and ESF funding in order to grant microloans to microenterprises and self-employed people excluded from bank credits. The aim was to establish a nationwide-network of microcredit providers and disburse an overall of some 15,000 microloans until 2015.

The so-called **MFIs** handle the whole credit process from the first contact with the client until full repayment. **GLS bank** was selected to administer the loans. The umbrella organisation **Deutsches Mikrofinanz Institut (DMI)** accredits the MFIs and assures the quality of the loan provisioning. **MFIs** can provide a first loan up to 10,000 EUR and further loans up to 20,000 EUR after paying back the first loan (steplending). Interest rates are currently fixed at 8.9%; maximum loan duration is 36 months. MFIs may not sell any business support services to their microborrowers and may not take any fees. Moreover, they have to cover a **first-loss liability up to 20%** of their overall defaults. However, as defaults above 20% on the global portfolio are very unusual, the MFIs are actually liable for 100% of their defaults. MFIs receive a (decreasing) **item fee per microcredit** and a **yearly gratification** of 10% on repayment of their loan portfolio minus losses.

The Fund greatly improved the environment for microcredit provision in Germany. Whereas until 2009, 13 microfinance providers existed, **as of December 2010 already 41 MFIs were accredited. Another 16 MFIs joined in 2011**. Loan activity is steadily increasing. While in **2010** the MFIs disbursed a total of **2,075 loans**, in 2011 another **4,758 microloans** have been disbursed[96].

The housebank principle: The federal public development bank **KfW Mittelstandsbank** channels loans under 25,000 EUR under different programmes via local banks. Backed by an EU CIP guarantee, KfW takes over up to 80% of the liability for the channeling bank. Interest rates are generally low, starting from 2.4% and a 12- or 24-grace period is granted. Moreover, KfW administers the business coaching programme "Gründercoaching" financed by ESF. KfW disbursed more than 6,809 loans below 25,000 EUR in 2011. The public banks of the German's federal states (**Landesförderinstitute** - LFI) run similar programmes from their own funds or in combination with KfW. The LFIs provided 7,139 loans below 25,000 EUR in 2011.

4. Outreach (incl. target groups and best-selling products)[97]

The "Mikrokreditfonds Deutschland" targets at new or existing microenterprises which do not have access to finance via traditional banks. Also several MFIs focus on specific groups (such as migrants or women) or on specific business sectors. Analysis shows that service, retail, food & beverage and craft are the main business sectors served by MFIs. Some 30% of the loans were granted to women and some 40% to migrants. The average loan amount of microloans disbursed by MFIs in 2010 and 2011 mounts up to some 5,970 EUR.

With KfW and public regional banks (LFIs) the average loan amount in 2011 was around 17,500 EUR. They do not intend to serve any specific groups and focus rather on the "bankable" segment of the population. However, some of the LFIs with special microcredit programmes try to reach out to non-bankable people by allowing direct loan applications via the chambers of commerce or start-up support centres, without the involvement of a bank.

96 The number of loans provided under the Fund in total differed from the number of loans determined in the data collected in the survey, as not all accredited MFIs under the Fund provided the data in the survey.
97 All the numbers mentioned here are related to the outreach of the Fund and not to the data provided by the MFIs in the survey.

5. Future Market Trends and Challenges

According to the interviewed experts there exists a high potential and a growing demand for microloans in Germany in coming years, especially from the "non-bankable" part of the population. Migrants and women have been declared priority target groups.

Three major trends can be identified in the German sector for the years to come. First, as public support is steadily reduced, it will be crucial for MFIs as well as public banks (LFIs) to **keep their processes as straight forward and lean as possible.** Therefore for MFIs a process costing model has been developed which enables MFIs to optimize their processes and show how much public support they need for specific types of clients and target markets. MFIs need to find cooperation partners such as foundations or private companies that support their funding. Some public banks have started applying internet tools for efficiency purposes (e.g. online application).

The second major challenge for the MFIs will be to **continue reaching out to the target groups** despite their de facto 100%-liability for defaults and the constantly decreasing item fees. As it is more expensive to serve "high risk" clients who need strong support before and during the loan lifecycle there is a risk that MFIs will more and more focus on "secure" clients who can be easily reached and will pay back with high probability. MFIs will need separate funding sources for their microloans in order to reach out to disadvantaged target groups.

Finally, as MFIs are expected to disburse around 7,000 microloans in 2012, it will be crucial to **continue assuring high quality and responsible loan provisioning** within this growing system. German MFIs are therefore being part of comprehensive quality measures provided by the DMI network. They are also piloting the implementation of the European Code of Good Conduct for Microcredit Providers.

Among the above mentioned, within the next 3 to 5 years, a prominent challenge would be building a **gateway** for existing offers. I.e. MFI customers, who become "bankable" and would need larger loans, should be able to have access to financial solutions and products offered by KfW or LFI.

Hungary[98]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	10,014,324
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	1.3 (2010) and 1.6 (2011)
GDP per capita (current EUR; 2010)	15,600
Unemployment rate (in %; 2010)	11,2*
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	-
People at risk of poverty or social exclusion (2010; 1000 persons)	2,948

Sources: National Statistics.

2. Legal Framework for Microfinance and policy initiatives

In Hungary the microfinance activity has been started in 1992 within the framework of the PHARE programme (Poland-Hungary Assistance for the Reconstruction of the Economy, also known as Aid programme for the Economic Transformation of Poland and Hungary). The programme was launched under the name of Microcredit Scheme (MCS) – today: National Microcredit Programme – by enterprise development foundations on county and on Budapest level along with the financial mediation and professional coordination of the Hungarian Foundation for Enterprise Promotion (HFEP). The national network of these local enterprise development foundations is a member of the EMN under the name of Hungarian Microfinance Network. When the programme was implemented, no general legal framework or special legislation regarding to micro-lending activites existed. The foundations

98 Authors: Tibor Szekfü and Zsófia Göde, Fejer Enterprise Agency.

were performing the crediting activity along with commercial banks (the banks were providing credits form their bank deposits according to the decisions of the foundations).

The legal regulation concerning the activities happened in two stages. In 1998, the Hungarian Parliament amended Act No. CXII of 1996 on Credit Institutions and Financial Enterprises in such a manner that it removed the lending activity performed from the National Microcredit Scheme of the Hungarian Foundation for Enterprise Promotion from under the effect of the Act. According to an amendment of 2003 **the lending activity of the Hungarian Foundation for Enterprise Promotion and the micro-lending activity of the foundations operating in the counties and the capital do not fall under the effect of the Act**. This regulation made it possible to the foundations to perform micro-lending activities without the mediation of the commercial banks (except for the usual banking operations such as account management and transfers).

Therefore it can be stated that there is no legal and regulatory background for micro-lending, at the same time specific regulations concerning specific MFIs are in force.

However, the Hungarian legislation does not prevent the creation of microfinancing banks. The Act No. CXII of 1996 on Credit Institutions and Financial Enterprises allows the creation of "financial enterprises" not collecting deposits with a starting capital of 50 million Forints (170,000 Euros), which can operate either in a non-profit or a profit-oriented way.

Therefore, it is not the legal and regulatory background in the current Hungary, which is the major obstacle of the spread and strengthening of microloans for social objective. The obstacles in financing, sustainability and the interest of other actors, deriving from the economic and social environment are much stronger obstacles to the expansion of microloans realising social objectives than the legal obstacles.

Sources: Trust Law (2011), Qualitative Interviews.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	9
Number of active clients:	701
Value of loans disbursed 2011 (in €):	6,258,275
Number of loans disbursed in 2011:	414
- to women	9 %
- to rural clients	38%
- to clients below poverty line	-
- to Startup enterprises	21%
- to ethnic minorities/ immigrants	1%
- for entrepreneurial / business purpose:	396
- to bankables	147
- to non-bankables	248
- for personal/ consumption purpose:	18
- to bankables	5
- to non-bankables	13

Until 2008 the programmes of the HFEP and the Local Enterprise Agencies formed the leading microfinance sector in Hungary. Only a few minor programmes from other actors existed parellely.

The apparent broadening of the microfinance sector has begun with the launch of the JEREMIE Programme in Hungary in the autumn of 2008. That was the period when the interest of the profit-oriented actors of the financial market turned towards microfinance, because the rules of the programme were established in a way that the **future mediators would be attracted by the financial benefit** coming from the difference between the low funding costs (refinancing interest: 0.4%) and the interest paid by the clients. According to the regulation of the programme, the maximum amount of the loan disbursed by the non-profit foundations is **10 million HUF (34,000 EUR). This amount is considered to be the limit under which the commercial banks would hesitate to lend for economic reasons. The same limit for the profit-oriented financial organisations is 50 million HUF (170,000 EUR)**, and in case of microloans combined with aid the loan is limited at 20 million HUF (68,000 EUR). Due to the disbursable amounts and other relevant obligatory rules (concerning the necessity of legal assurances) as well as the clients, this type of **loans is not being considered as microfinance** – according to the internationally accepted definitions.

In Hungary, the banking sector does not deal with financing and operating the microcredit programme, however, the saving cooperatives dealing with deposit taking have joined the JEREMIE Programme with the limit of 20-50 million HUF. The number of non-profit microfinance organisations is 21 institutions (the Local Enterprise Agencies, i.e. the Hungarian Microfinance Network and the Hungarian Foundation for Enterprise Promotion). The number of non-profit microfinance organisations participating in the JEREMIE microcredit programme is 16 institutions.

Source: CREDINFO Ltd. (Credinfo database).

4. Outreach (incl. target groups and best-selling products)

The spread of the microcredit programmes accomplishing social goals is restricted. They are limited by terms of economic and social environment, finance, sustainability and conflict of interests among the different actors.

The self-employment, social enterprise (regulated type of enterprise) and the moratorium on taxation provided for start-up enterprises do not exist in Hungary. The taxes and contributions are high and the tax system is extremely complicated. Therefore, starting a new enterprise requires great caution and is highly risky. That is the reason why the social-economic environment and the regulatory background do not allow the spread of the micro-entrepreneurial sector which could possibly be the "market" of the "traditional" microcredit products.

The micro-enterprises viable and already active in the regulatory circumstances described above are – due to the JEREMIE microcredit programme and other preferential microcredit programmes (with an interest rate of 1% - 9%) – not as vulnerable so that they would provide marketable demand for the investors counting on greater profit or the profit-orientated microfinance institutions. Therefore, there is no micro-lending activity accomplishing social goals in Hungary, the objectives of the operating programmes are enterprise promotion and economic development. Among these programmes the Új Széchenyi Terv (New Széchenyi Plan) Microcredit Programmes, which operates within JEREMIE Programme framework, is mostly successful (in terms of magnitude).

5. Future Market Trends and Challenges

operation of the enterprises, strict and complicated tax system, high taxes and contributions, tough and relentless tax recovery procedures – did not enable the creation of a real microfinancial sector in Hungary. The lending activities, which are the closest to the traditional micro crediting activity, are carried out by the Hungarian Microfinance Network formed by non-profit enterprise promotion agencies. It is important to mention that the regulations and the specificities of their programmes are not even established by these organisations themselves. These regulations and requirements are always defined by the investor.

Today "a profit-orientated microfinancial sector" does not exist in Hungary. The profit-orientated organisations, which participate in the JEREMIE Microcredit Programme with credits of 170,000 EUR, do not actually do microcrediting activity. Today for the non-profit microfinance organisations is the greatest challenge to maintain the reimbursement indicators – in a constantly declining economic environment – on a level that they could sustain their participation in the JEREMIE Programme.

In the long term, the biggest defiance is to not possess the critical amount of capital fund which would be able to provide the sustainability with the operational costs and the potential losses. Therefore, they have to rely on external funds (or sponsors if they find any). Under the circumstances described above the market investors cannot be envisaged (the PROGRESS tool is not a reasonable alternative either, because under the present financial conditions it is not possible to create a marketable microcredit product from these funds in Hungary). At the moment, it cannot be foreseen whether there will be any suitable fund and programme for micro-lending in the next programming period (2020) from which the long term sustainability of these institutions can be provided with marketable products.

Italy[99]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	60,340,328
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	1.8% (2010) and 0.4% (2011)
GDP per capita (current EUR; 2010)	23,500
Unemployment rate (in %; 2010)	8.4
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	24.5% (Percentage of total population)
People at risk of poverty or social exclusion (2010; 1000 persons)	14,742

99 Authors: Maria Cristina Negro and Fabrizio Botti, Giordano Dell' Amore Foundation (FGDA); Maria Claudia Constantini and Marcella Corsi, Fondazione Risorsa Donna.

2. Legal Framework for Microfinance and policy initiatives

The Legislative Decree n. 141 (13th August 2010), which introduced Articles 111 and 113 in the Italian Banking Act, launched the first specific legal framework on microfinance in Italy. The new legislation identifies two different types of microcredit ("entrepreneurial" and "social") according to the aim of the micro-lending activity (respectively creating or developing self-employment activities and microenterprises, and financial and social inclusion), the target groups (individuals, partnerships and mutual societies on the one hand, and vulnerable categories of individuals on the other hand), the contract terms (maximum loan amount of 25,000 EUR and 10,000 EUR) and the supporting services offered. The new regulation provides for the creation of a special list of authorized entities which are allowed to grant "entrepreneurial" loans when specific requirements are met (the entity must be a joint-stock company; minimum capital requirements and those relating to the reliability and professionalism of partners and representatives of the entity to be specified by the Italian Ministry of Finance; corporate purpose has to be restricted to microlending activity and other auxiliary activities).

Article 111 of the Italian Banking Act also allows non-profit entities to grant "social" microloans provided that they charge non profit interest rates for cost recovery, and for a maximum loan amount of 10,000 EUR.

The most relevant operating rules of the above described legislation are still to be implemented by the Italian Ministry of Economy and Finance (they should have been implemented within the 31st December 2011), thus the Article 11 is not yet in force and microlending activity reported in the reference time interval of the survey is regulated under the mainstream bank legislation restricting financial intermediation to banks with few exceptions[100]. As a consequence, the bulk of the Italian microcredit programmes translate in a composite process involving multiple entities (usually a lender in the banking sector, a promoter in the non-profit sector and a guarantor[101]).

According to interviews with key actors of the Italian microfinance industry the slow implementation of the specific legal framework may act as a burden on the development of the sector.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	14
Number of active clients:	1,314
Value of loans disbursed 2011 (in €):	4,884,652
Number of loans disbursed in 2011:	921
- to women	58
- to rural clients	-
- to clients below poverty line	4%
- to Startup enterprises	5%
- to ethnic minorities/ immigrants	26%
- for entrepreneurial / business purpose:	434
- to bankables	96
- to non-bankables	337
- for personal/ consumption purpose:	487
- to bankables	105
- to non-bankables	382

The total number of participating actors (14) significantly declined with respect to the previous edition of the EMN survey (32 in 2008/2009) where the largest share of European surveyed organizations were found in Italy, according to its distinctive of its industry structure based on a large number of small social microcredit initiatives. The smaller sample of participating MFIs is due to an explicit change in selection criteria (more focused on larger and consolidated providers) rather than an actual signal of supply side contraction. Potential demand for microcredit is perceived to be high and rising in recent years as a consequence of the impact of the crises on financial exclusion, and the fragmented and low scale of the supply side.

Responding actors (12 MFIs provided the respective information due to their microcredit disbursement) disbursed 921 loans and a total amount of 4,884,652 EUR (respectively 839 and 3,954,953 EUR in 2010), almost 60% of which are provided to women. Between 2010 and 2011 the number of

100 Non-banking financial institutions may grant loans and provide payment services if registered under the article n. 106 with a minimum capital requirement of € 600,000.
101 See the Italy Country Summary in Jayo et al. (2010, pp. 86-87) for a more detailed description of the implications on the Italian microfinance industry of the current legislation.

active borrowers has increased by 31% (respectively 888 and 929 total active clients) as well as the value of gross microcredit outstanding (+27%).

The Italian microcredit sector confirms its non-profit roots, as more than half of respondents are NGOs or religious institutions. Even the banking institution surveyed (Banca Etica) is fully committed to clients operating in the non-profit sector. The whole group of surveyed microcredit initiatives disburse exclusively individual loans.

Role of the banking sector

The banking sector is exclusively involved as a lender in the microcredit segment of the market given the provisions of the current regulations (see section 1 above) without any risk-taking (the promoter or a third subject such as foundations, public agencies or Confidi often deposit a guarantee fund to secure the loan). Non-banking actors (mostly NGOs or non-profit institutions) rely on commercial banks only for the lending activity while carrying out the selection process and providing non-financial services. Some good practices of partnership between MFIs and the formal financial sector are emerging in the framework of special projects even if not yet generalized[102]. The first significant long-term partnership between an Italian MFI and the banking sector was achieved by BNL-BNP Parisbas that invested 1.5 million EUR to control 24.3% of PerMicro capital stock.

4. Outreach (incl. target groups and best-selling products)

Italian MFIs interviewed do not apply any restrictive client-specific form of targeting, but rather aim at serving the more vast target group of the financially excluded (same evidence mostly emerged for surveyed MFIs, with few exceptions: Fondazione Risorsa Donna exclusively target women). Recent changes in the target groups seem to favour younger age classes. Ethnic minorities and migrants are the main target groups in terms of both loan amount and number of loans (respectively 28% and 25% of total). Younger age classes (18 to 25 years old) currently attract only 6% of total loan portfolio. As for enterprises age, the most significant share of outstanding loans targets those in their start up phase (13% of total amount).

Product differentiation appears as the main product policy (PerMicro offers three types of enterprises loans, two devoted to households and different sub-products addressed to specific communities) coupled with the provision of remunerated BDS. The launch of new products is planned by all the participating MFIs especially in support of worker and those trying to enter the labour market. Loans to enterprises, for work integration, and consumer credit were mentioned as the most successful products offered by participating MFIs. Product success may not always translate in profit, but it has been interpreted in terms of provision of resources and value to clients[103].

5. Future Market Trends and Challenges

The most important goal addressed by Italian MFIs is to improve the outreach to the most excluded. Some of the interviewed practitioners believe that increase of scale and the financial sustainability are a mean to achieve effective results in terms of breadth and depth of outreach.

The involvement of the public sector through direct intervention or public-private synergies is deemed to be one of the key factors for the development of the industry. The lowering available external resources owing to the impact of the current crises may also foster a more sustainable, innovative and client-oriented sector[104].

The delays in the implementation of the recently introduced legal framework and the provisions on interest caps represent two crucial challenges for MFIs growth and sustainability, especially given the small scale of the supply side if compared to the rising potential demand for microcredit products at the time of crises.

102 Interview with Giampietro Pizzo, President of RITMI (the Italian microfinance network).
103 Interview with Sheela Scerba, Director of Fondazione Microcredito e Sviluppo.
104 Interview with Andrea Limone, PerMicro Chief Executive.

Former Yugoslav Republic of Macedonia[105]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	2,052,722
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	2.9 (2010) and 3.0 (2011)[106]
GDP per capita (current EUR; 2010)	3,400*
Unemployment rate (in %; 2010)	31.2% (2011)[107]*
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	-
People at risk of poverty or social exclusion (2010; 1000 persons)	-

* Sources: National Bank of the Republic of Macedonia, State statistical office of Macedonia, UNDP Macedonia and the EC delegation – Euro Info Centre, Eurostat, World Bank, IFC -Doing Business report 2011

2. Legal Framework for Microfinance and policy initiatives

The Microfinance institutions in Macedonia are registered and supervised by the National bank of Macedonia as Saving Houses, e.g. Savings House Moznosti, and recently as non- profit Microfinance institutions. The legal framework for provision of microfinance was amended recently, the Law on Financial companies (Dec 2010) and changes in Law on Obligation Relations with introduction of interest caps were adopted. The new Law on Citizen's Associations and Foundations, April 2010, allows MFIs to perform microcredit activities on non-for-profit basis, registered as foundations, e.g. Microcredit Foundation Horizonti.

The recent changes in the legal framework influenced the MF sector's development, on one side the Law on Financial Companies brings positive influence allowing social oriented MFIs to transform into regulated MFI maintaining the non-profit status, on the other side, the introduction of interest caps has a negative influence, due to the low rates set by the regulators that is jeopardizing the sustainability of the MFIs and limit their capacity to provide nonfinancial services, e.g. business support services to their clients.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview	
Number of survey participants:	3
Number of active clients:	13,796
Value of loans disbursed 2011 (in €):	18,830,525
Number of loans disbursed in 2011: - to women - to rural clients - to clients below poverty line - to Startup enterprises - to ethnic minorities/ immigrants	7,021 51% 29% 1% 0% 29%
- for entrepreneurial / business purpose: - to bankables - to non-bankables	4,552 1,441 3,110
- for personal/ consumption purpose: - to bankables - to non-bankables	2,469 1,383 1,086

105 Author: Maria Doiciu, Eurom Consultancy and Studies SRL, Senior consultant on SMEs and Micro-finance.
106 Forecasting.
107 Data is not available for 2010.

65% from the loans were business loans, 68% of the business loans were disbursed to non-bankable clients, 51% of the loans were disbursed to female clients, 29% to rural clients and 29% to ethnic minority clients. The legal framework changes, especially the cap on interest, without subsidy from the Macedonian Government affected the capability of the MFIs to provide inclusive finance services to the underserved entrepreneurs in Macedonia. The financial products, lending methodology, processes were redesigned in order to reduce costs and credit default risk. Affected by the financial crisis, the demand for microfinance services is quite stable with potential to rise, especially in rural areas where the market is less affected and gives opportunities for increased outreach with financial products for to agriculture producers.

4. Outreach (incl. target groups and best-selling products)

The four main providers of microfinance services in Macedonia are primarily focusing financial inclusion e.g. Horizonty and Fulm SH, whine Savings houses Moznosty and Procredit are mainly oriented in entrepreneurship promotion and employment. Covering with branches and offices almost all Macedonian towns and larger municipalities, MFIs are targeting the rural areas with new financial products designed for agricultural business. Financial products targeting small business, e.g. small business loan for working capital (loan size 1,000 – 3,000 EUR, maturity 24 months) and loan for small farmers are the best selling products.

Due to the lack of funds, Business development support services are not provided to the clients or potential applicants, occasionally grants are available targeting financial inclusion of minorities and a mix of financial services and BDS are provider to the eligible beneficiaries.

5. Future Market Trends and Challenges

The main challenge of the following period is to improve the legal framework, aiming to remove the cap on interest while maintaining in the current conditions the organization operational.

Access to financial resources to increase the MF portfolio and technical assistance in the area of risk management, improvement of the MIS systems, staff development are as well considered challenging objectives for Macedonian MFIs.

The EC financial facility Progress and JASMINE are of particular interest for the MFIs, therefore more efforts are made to promote the achievements of the Macedonian MF sector in order to be included among the beneficiaries of the EC microfinance facility in the 2014 – 2020 programing period.

Netherlands, The[108]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	16,57
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	1,6 (2010) and 1,0 (2011)
GDP per capita (current EUR; 2010)	35,400
Unemployment rate (in %; 2010)	4.5
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	12,175
People at risk of poverty or social exclusion (2010; 1000 persons)	2,386

108 Author: evers & jung.

2. Legal Framework for Microfinance and policy initiatives

There is no specific microfinance regulation in place in the Netherlands. The existing banking regulation does not create any real barriers for legally registered institutions (either foundations or private limited) that wish to offer micro lending services, provided this takes place without publicly raised funds and/or the offer of savings facilities. As soon as a private organisation wants to take deposits it has to adhere to all laws and regulations in this field and needs an operating license either from the Dutch National Bank (DNB) or the Authority of Financial Markets (AFM). An interest rate cap exists for consumer credit. It is set by the government at the Statuary Interest Rate of DNB plus 12% (16% at the 1st of July 2011).

For recipients of welfare benefit that want to start a small business and self-employed persons with financial problems (income is below the social assistance benefit level), a financial support scheme at municipality level is in place. It is called Self-Employed Persons (Provision of Assistance) Decree (Besluit bijstandverlening zelfstandigen, Bbz) and offers different forms of social assistance options such as a loan, credit or supplement to income. The scheme is only accessible by persons that receive unemployment benefits at welfare level.

Since 2009 the Ministry of Social Affairs launched a special pilot programme to test out whether the financing operations for unemployed persons wishing to set up a business could be channelled through commercial banks. Evaluations revealed that municipalities were not the proper channels to administer and supervise lending. Under the pilot scheme a government guarantee is offered in support of loans (up to 32,000 EUR) to be extended by commercial banks. The pilot runs in five regions: Flevoland, Rotterdam, Twente, Leeuwarden and Tilburg. In all other regions, entrepreneurs can approach Qredits either directly (online application) or through a microfinance-advice Centre.

In 2007 the 'Council for Microfinance in the Netherlands' was established by the government as a reaction to reports on the insufficient access of the Dutch micro-entrepreneurs to finance. Based on a thorough analysis of the Dutch microfinance sector and taking into account the experiences in microfinance worldwide, the Council submitted its first report in 2008. Recognising that access to both business support and finance is important for the success of an enterprise, especially for those who cannot access finance through regular bank, a new centrally coordinated system was advocated, which has been active since 2009. This new microfinance system combines the pre- and post start-up business support with microloans (up to 35,000 EUR). The new Dutch microfinance system is composed of three elements:

1. Intake and pre-start-up support,
2. Finance: credit of max 5,000 EUR,
3. Post start-up support.

Several different parties are involved in the system, namely the Ministries of Economic Affairs and Social Affairs (for funding and coordination of the involvement of business support organisations), Qredits (offers the microloans), financial institutions and an array of public and private business support organisations or so-called Microfinance Advice Centres (MF-Ondernemerspunten). The central coordination was entrusted to a special (temporary) Microfinance Division (Project Directie Microfinanciering) of the Ministry of Economic Affairs.

A Microfinance Knowledge Centre, which is linked to the microfinance division of the Ministry of Economic Affairs, has been responsible for the scheme's implementation. The Knowledge Centre provides information, carries out marketing and is responsible for the central coordination of Microfinance Advice Centres (Mf-Advice Centres). As from April 2010, the coordinating and implementation activities of the Microfinance Division have been transferred to the new Microfinance and Entrepreneurship Foundation.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	1
Number of active clients:	1,121
Value of loans disbursed 2011 (in €):	16,000,000
Number of loans disbursed in 2011:	1,000
- to women	35 %
- to rural clients	ND
- to clients below poverty line	ND
- to Startup enterprises	72 %
- to ethnic minorities/ immigrants	14 %
- for entrepreneurial / business purpose:	1,000
- to bankables	950
- to non-bankables	50
- for personal/ consumption purpose:	-
- to bankables	-
- to non-bankables	-

In the past years the microfinance sector in the Netherlands experienced a drastic change from many small and local microfinance projects and funds to a dominant national model that is endorsed by the national government.

In 2009, a total of 44 organisations extended 1,107 microloans. In 2011, an institution alone disbursed 1,000 loans in 2011 with a total value of 16 million EUR. Other microfinance organizations that are still active on a local level provide only small numbers of loans and where not included in the survey.

Commercial banks are active in direct microlending as part of their standard loan activities (including overdraft facilities for microenterprises) but no specific data on the scope of that "hidden" microfinance activity is available. The Dutch banking sector was always involved in piloting some specific microlending offers in the past and also supported the creation of micro-lending institution actively, with four commercial banks being partners in the foundation: ABN AMRO bank, Fortis bank Nederland, ING Nederland and Rabobank Nederland. Qredits also was successful in securing refinancing for its loan portfolio from these banks.

4. Outreach (incl. target groups and best-selling products)

Microcredit in the Netherlands is targeted at start-ups and microenterprises that are excluded from the traditional banking sector. This target group includes unemployed persons, women, migrants and other sub-groups that are actively seeking financial support to start their entrepreneurial activity.

The best selling products are:
- Microloans: 10 – 25 TEUR
- Entrepreneurial loans: 25 - 50 TEUR
- Pre-start up coaching

5. Future Market Trends and Challenges

The interviewed experts are convinced that the market for microfinance will grow further in the Netherlands. This is connected to general developments in the society and labour market that can be observed in many Western European countries. With a more diverse society the employment choices will become more flexible including temporary and part-time self-employment. More people are expected to look for opportunities to embrace self-employment as a way out of social exclusion. New target groups for entrepreneurship and therefore microcredit and microfinance will arise: socially excluded that look for ways to combine the social benefits with income generating, young professionals interested in entrepreneurship as a limited experience, freelancers combining self-employment with part-time employment. In the Netherlands, the consolidation of the sector will continue aiming at growth and sustainability. The strategy on the product level will be the diversification on the educational side (e.g. e-learning tool).

Poland[109]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	38,167,329
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	3.9 (2010) and 4.3 (2011)[110]
GDP per capita (current EUR; 2010)	15,770 (2011)
Unemployment rate (in %; 2010)	12.4% (June 2012)*
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	6.7% (2011)*
People at risk of poverty or social exclusion (2010; 1000 persons)	10409

* Sources: IFC Doing Business 2012 Report.

109 Author: Diana Bialus, Eurom Consultancy and Studies SRL, Microfinance Consultant.
110 Forecast.

2. Legal Framework for Microfinance and policy initiatives

According to the current legal framework in Poland, the following institutions can provide microcredit: commercial banks, cooperative banks, specialized microcredit banks, credit unions, foundations, NGOs, non-bank finance institutions, social lending companies and local guarantee schemes. The sources of funding come from the government, private funds as well as international and European sources.

Currently there are four main types of institutions providing microcredit, each operating under a different legal framework: specialized microcredit banks (such as FM bank established in 2012), 'classical' MFIs (Fundusz Mikro and Inicjatywa Mikro), credit unions and loans funds and guarantee funds. Out of these institutions, the only ones that are allowed to take deposits are banks. There is no specific law on microfinance in Poland, the classical MFIs operating as registered as limited liability companies (Sp. z o.o.).

Specific provisions of the current legal framework, that impact microcredit provision, are:

- In 2006, the Anti-usury regulation entered into force which puts a cap on the interest rate that can be charged on loans. Currently, the maximum amount of interest resulting from an act in law shall not exceed annually the amount of the lombard loan rate of the National Bank of Poland multiplied by four. If the amount of interest resulting from an act in law exceeds the maximum interest, the maximum interest shall be paid. The contractual provisions shall neither exclude nor limit the provisions on maximum interest, even in the case of choosing a foreign law jurisdiction. In such event, provisions of civil code shall apply. Effectively, the interest rate is capped at around 20% which in essence does not harm microfinance operations.
- In terms of access to databases, the MFIs have access to credit bureau data on a contractual basis with the entities (most known credit bureau is BIK).

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	1
Number of active clients:	13,480
Value of loans disbursed 2011 (in €):	100,354,269
Number of loans disbursed in 2011:	23,732
- to women	-
- to rural clients	-
- to clients below poverty line	-
- to Startup enterprises	1%
- to ethnic minorities/ immigrants	-
- for entrepreneurial / business purpose:	23,732
- to bankables	23,732
- to non-bankables	-
- for personal/ consumption purpose:	-
- to bankables	-
- to non-bankables	-

As described above, there are four types of institutions providing microcredit, each with a different model:

- FM Bank is the most recent microcredit provider in Poland. They are the first financial institution to specialize in servicing micro and small companies in Poland.
- Fundusz Mikro and Iniciatywa Mikro are looking to serve those microentrepreneurs that are perceived as high-risk and low potential revenue by the traditional banking sector.
- Credit unions provide financial support to their members both for consumption, but also for productive activities and business development.
- Loan funds finance investment projects, working capital and early-stage SMEs, provide loan and credit-guarantees and public tender guarantees; they mostly operate locally and their clients are SMEs who cannot use traditional financial instruments available at the bank or experience difficulties to obtain such financing (loans), as well as SMEs applying for a credit/loan or taking part in a public tender and do not have satisfactory guarantee for future payments (guarantees); the loan value is up to approximately 30,000 EUR and the guarantee value up to 80% of the credit or loan value.

4. Outreach (incl. target groups and best-selling products)

Currently, the microfinance institutions in Poland aim to reach those clients that are not bankable for various reasons such as lack of collateral or lack of credit history or too high operating costs. The current microcredit providers represented by MFIs, credit unions and loan funds were able to reach part of the unbankable entrepreneurs, however the loan amounts remain high or the funding is available only in certain regions (e.g. Inicjatywa Mikro mainly serves the South of the country). So far, no aggregate data has been published on the market covered by the existing microcredit providers. However, according to information from the practitioners there is still an important part of the market that is not served. These are entrepreneurs requiring financing up to 15,000 – 20,000 EUR.

5. Future Market Trends and Challenges

The opportunity for microcredit provision in Poland lies within the significant number of microentrepreneurs (95.9% of the total number of enterprises registered in Poland in 2011). Most of these entrepreneurs have no access to bank financing due to their small size, lack of hard collateral and/ or credit history. The main challenge for the MFIs is the access to funding for on-lending to microentrepreneurs.

Sources: Quantitative survey, Qualitative interview with Ms. Justyna Zawadzka, Fundusz Mikro Sp. z o.o.

Romania[111]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	21,462,186
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	-1.6 (2010) and 2.5 (2011)
GDP per capita (current EUR; 2010)	5,800*
Unemployment rate (in %; 2010)	7.4% (2011) *
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	-
People at risk of poverty or social exclusion (2010; 1000 persons)	8,890

Source: National Statistics.

2. Legal Framework for Microfinance and policy initiatives

By the initiative of the Romanian MF sector, in partnership with the SMEs Agency, in July 2005 the Microfinance Companies Law was passed, which created a full legal framework for microfinance activities extended by the MFIs registered as Non-Bank Financial Institutions (NBFIs).

The legal framework was further expanded by the Law 93 in 2009 and governs all financial activities provided by NBFIs such as leasing, mortgage lending, consumer finance and microfinance. The NBFIs are supervised by the National Bank of Romania (BNR). The minimum capital required for establishing a NBFI is 200,000 EUR. The specific requirements of the legal framework include: no interest rate caps, no deposit-taking, client protection, transparency in pricing, risk management polices e.g. internal and external audit, transparent governance, etc.

111 Author: Maria Doiciu, Eurom Consultancy and Studies SRL, Senior consultant on SMEs and Micro-finance.
112 Data is not available for 2010.

All MFIs are registered in the NBR General Register. According to their portfolio size the MFIs with a portfolio above EUR 5 million are registered in the Special Register. For the large MFIs there are more stringent reporting requirements as well as supervisory visits by NBR.

The impact of the legal framework on the development of the sector is overall positive. Registration and supervision from the NBR, access to the two credit bureaus, increased transparency and improved governance made the Romanian microfinance sector attractive to investors whom contributed to the sector's constant growth of 30% per year, reaching in 2010 a value of the total assets exceeding EUR 80 million.

Credit Unions are regulated under the Credit Union Law of 2006 and are supervised by their apex body UNCAR. The credit cooperatives are regulated, registered and supervised by the NBR. Collection of voluntary contribution of CU's members and reinvested profits are the sources of CU's loan portfolio. The credit cooperatives are allowed to collect deposits from their members and to extend loans to members and non-member beneficiaries.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview[113]

Number of survey participants:	9
Number of active clients:	19,099
Value of loans disbursed 2011 (in €):	60,037,822
Number of loans disbursed in 2011:	10,983
- to women	46%
- to rural clients	19%
- to clients below poverty line	29%
- to Startup enterprises	6%
- to ethnic minorities/ immigrants	6%
- for entrepreneurial / business purpose:	10,471
- to bankables	2,892
- to non-bankables	7,579
- for personal/ consumption purpose:	512
- to bankables	42
- to non-bankables	470

The Romanian microfinance sector is represented by the NBFIs focused on microfinance established in early nineties with the financial and technical support of the international microfinance networks. Among them are: Patria Credit, OMRO, Express Finance - Vitas, FAER, LAM, ROMCOM, CED-Good.bee. Later, as the legal framework evolved the newly established NBFIs such as RoCredit and Aurora joined the sector along with new NBFIs, although those are mostly focused on consumer finance.

An important contribution to the inclusive finance approach of the MFIs is that of the Credit Unions (CUs) movement with over 2,000 CUs represented by two Apex organizations (UNCAR and FEDCAR) and 840 Credit Cooperative Banks represented by Creditcoop providing savings and credit on a small scale.

Furthermore, two dedicated SME Banks, ProCredit Romania, evolving from an NBFI and Transilvania Bank, as well as some other several commercial banks are providing loans and various financial services to the Micro and SME sector – albeit mostly in urban areas.

Launched as an initiative of the Romanian Government, aimed to continue the Romanian Micro-Credit Scheme, the Kogalniceanu programe implemented by the SMEs Agency in partnership with 11 Financial Institutions is providing subsidized micro-credits to start-ups and innovative micro companies.

95% from the extended loans were business loans. 10-15% from the UNCAR's clients use microloans to finance income generation activities, 72% of the business loans were disbursed to non-bankable clients, 46% of the loans were disbursed to female clients, 19% to rural clients and 6% to start-ups.

113 Without UNCAR.

4. Outreach (incl. target groups and best-selling products)

After two years (2008-2009) of significant contraction of the Romanian microfinance sector due to the influence of the financial crisis and the risk adverse strategy practiced by the MFIs to preserve the quality of their portfolio, 2010 and especially 2011 were years of moderate growth and regain of the previous outreach.

More concerned of the clients' sustainability, their financial needs and taking active measures to avoid their over indebtedness, the new development strategies of the Romanian MFIs include product diversification, e.g. factoring (RoCredit), credit lines for farmers, etc. new risk management procedures e.g. assessment of the investment feasibility (RomCom), avoidance of over-indebtedness, new debt collection procedures combined with business development services (OMRO), strategic partnerships with SMEs banks, e.g. Patria Credit – Banca Transilvania.

Within 2010-2011, the Romanian MFIs were among the main beneficiaries of EC funded JASMINE technical assistance program and Progress financial and guarantee facility. Evaluation and ratings were conducted by the two European rating agencies and tailored training programs were received by seven MFIs, one SMEs bank and the Romanian SMEs agency's Kogalniceanu program. Two MFIs and one SMEs bank received financial resources-credit lines from EC's Progress facility in 2011 and portfolio guarantee for the following five years.

The positive impact of the technical assistance and the access to financial/guarantee resources from the EC's funded programs is reflected in the improved performance and sustainable growth of the microfinance sector in Romania.

5. Future Market Trends and Challenges

Within a still instable economic environment influenced too much by the political instability, with a growing demand for financial services from the rural areas from both, agricultural and non-agricultural sectors, the Romanian MFIs are looking for support/technical assistance and financial resources from the private and institutional microfinance investors in the region.

The Romanian government's microfinance programs, e.g. "Kogalniceanu program" and "Start-up", are currently implemented exclusively through the SMEs banks and to assess them is one of the challenges of the following period.

The second wave of the global crisis exacerbated by political instability is affecting mainly the urban clients. MFIs are expecting a slight portfolio quality improvement and therefore business development services, customized collection techniques for default clients and financial products designed to support the clients that are experiencing financial difficulties are among the measures envisaged to contribute to the future development of the sector and increased positive impact of the microfinance activities.

MFIs access to adequate financial resources and technical assistance remains one of the challenges of the following period.

Sources: Interview with Diana Kallos, Patria Credit's Executive director, S-P O'Mahony- OMRO's CEO, Stelian Minoiu - UNCAR and Flavius Lese- RoCredit's Executive Director.

Spain[114]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010)	45,989,016
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	-0.3 (2010) and 0.4 (2011)
GDP per capita (current EUR; 2010)	23,300 (2012, 1st quarter)
Unemployment rate (in %; 2010)	24,3 (2012, 1st quarter)
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	
People at risk of poverty or social exclusion (2010; 1000 persons)	11,675

Additional source: Instituto Nacional de Estadísitica (INE).

114 Silvia Rico and Paula Muñoz, Fundación Nantik Lum.

2. Legal Framework for Microfinance and policy initiatives

There is no specific regulatory framework for microfinance in Spain. Any kind of support to the underground economy is forbidden, but on the other hand, the Spanish legal framework fails to offer alternatives to allow for the transition of informal microentrepreneurs to the formal sector of the economy. The quantity and complexity of formal legal requirements constitute a barrier to the development of the sector. Microentrepreneurs require a specialized legal, tax, and administrative framework if microfinance aims to supportthem efficiently.

Local development policies have no legal framework included, wich would allow the inclusion and integration of microfinance at the local level.

Historically, there has been a lack of lobbying efforts targeted at strengthening the microfinance sector, at creating adequate regulation and including microfinance in the national political agenda, as well as at raising awareness within the public sector.

In 2010, the Working Group on Microfinance Regulation in Spain was created by the Spanish microfinance network "Foro de Microfinanzas" to address the above weaknesses identified during the First National Meeting on Microfinance in September 2010. It aims to develop microfinance legislation in Spain in order to facilitate the emergence of microfinance institutions and the development of the sector.

At its inception the working group was made up of 50 institutions. Today it consists of more than 120, which represents all stakeholders: savings banks, Fundación ICO, European Social Fund, SMSOs, universities, foundations, NGOs, associations of beneficiaries, consultants, public institutions (municipalities, ministries, regional governments, etc.), amongst others.

By the end of 2012, the Working Group aims to complete a legal proposal and it has already started to contact relevant parliamentary commissions for its presentation in the Spanish Parliament.

Sources: Collection of Monographs Nº 18. Microfinance in Spain: Impact and recommendations for the future. Foro de Microfinanzas. Jaime Durán, Coordinator of the Working Group on Microfinance Legislation.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview

Number of survey participants:	13
Number of active clients:	75,191
Value of loans disbursed 2011 (in €):	232,497,046
Number of loans disbursed in 2011:	36,188
- to women	-
- to rural clients	-
- to clients below poverty line	-
- to Startup enterprises	12%
- to ethnic minorities/ immigrants	13%
- for entrepreneurial / business purpose:	32,569
- to bankables	-
- to non-bankables	-
- for personal/ consumption purpose:	3,619
- to bankables	-
- to non-bankables	-

In the 90´s microcredit appeared the first time in Spain, as a result of isolated initiatives on the part of various social organizations. It received its biggest boost from 2001 onwards with the support of public sector entities, especially the savings banks. Since the beginning of this century, the number of disbursed loans has experienced exponential growth until the abrupt slowdown with the arrival of the international financial crisis in 2008-2009. Nearly 20[115] microcredit programmes, mostly promoted by the savings banks, were active in 2008 at the peak of the expansion of the sector. By 2010 only a handful of financial institutions continued to provide microcredit in Spain.

In Spain savings banks have traditionally provided microcredit via two types of programmes:

1. In-house programmes. These programmes have been implemented by savings banks with their own resources. Currently, only very few of them are active, with the main provider Microbank la Caixa.
2. Programmes linked to public sector initiatives. These are programmes that savings banks ran jointly with public bodies. The latter also provided guarantees to the microloans disbursed. The two main programmes have been: ICO Microcredit Line (Instituto de Crédito Oficial) and Microcredit Programme for Entrepreneurs and Business Women of the Instituto de la Mujer (Women's Institute). None of them are any longer in place.

All these programmes have been based on the existence of SMSOs, which function as a liaison

115 We are referring only to formal financial institutions (commercial banks and savings banks) which are the only ones who can legally provide credit in Spain as a primary and principal activity.

between the entities providing microcredit and microentrepreneurs. These SMSOs, which can be private or public entities, are characterized by their proximity to vulnerable groups, and also by their expertise in social work through the promotion of self-employment. With the closure of many of the programmes, the SMSOs are facing two main problems: 1) to offer financing alternatives to those beneficiaries that want to start up or consolidate a small business; and 2) to survive themselves, as they were used to receive financial support from the programmes. In fact, some relevant SMSOs, such as the Banco Mundial de la Mujer, have recently closed their activities.

However, a series of innovative initiatives have re-surfaced, driven by financial institutions and SMSOs (e.g.: Microbank la Caixa and SMSO's own programmes), public authorities (e.g: Pilot programme of Fundación ICO and Fundación CajaSol, or ENISA, a programme for young entrepreneurs), universities (e.g.: Master on Microfinance, Universidad Autónoma de Madrid) and foundations or associations linked to the microcredit sector (e.g: Spanish Microfinance Platform, www.esmicrofinanzas.com).

Sources: Collection of Monographs Nº 18. Microfinance in Spain: Impact and recommendations for the future. Foro de Microfinanzas. Jaime Durán, Coordinator of the Working Group on Microfinance Legislation.

4. Outreach (incl. target groups and best-selling products)

The Microcredit and BDS services are both considered as the main products in the microfinance sector in Spain. The savings banks have been traditionally the providers of financial resources and the SMSOs are the providers of BDS. Since the financial and economic crises no savings bank is running a microcredit programme anymore except of the Microbank la Caixa[116]. However, some SMSOs have started to run their own programmes with their own funds. In this sense, it is worth to highlight the activities of CP'AC in Catalonian or Fundación Tomillo in Madrid. There is also a public initiative from ENISA (Ministry of Industry, Tourism and Commerce) to provide directly loans to young entrepreneurs.

The main microfinance product in Spain is a microcredit: a small loan granted to people at risk of social and financial exclusion, excluded or with difficulties in accessing the traditional credit system, and with an entrepreneurial spirit. The loans are individual loans. Fundación ICO together with Fundación CajaSol have developed a pilot programme with a group lending methodology targeted to the most vulnerable. Also, since 2004, there is a growing initiative with microsavings: the self-financing communities of ACAF.

The main clients of microfinance in Spain have traditionally been vulnerable immigrants and women. Due to the lack of resources, more and more the existing SMSOs and savings banks tend to value the entrepreneurial spirit, and the education and/or professional experience of the entrepreneur. The key question right now is who is going to attend the base of the pyramid?

Sources: Qualitative Interviews and Collection of Monographs Nº 18. Microfinance in Spain: Impact and recommendations for the future. Foro de Microfinanzas.

5. Future Market Trends and Challenges

In the current economic, financial and labour crises, with more than 5.6 million unemployed, the access to microcredit is crucial and can respond to one of the greatest social needs in Spain: the creation of employment.

Based on the experts interviewed, the main goals are:

- To position microcredit and microfinance as financial tools adapted to the needs of self-employed entrepreneurs and micro-businesses wishing to start or expand their business.
- To gain scale: based on the development of a correct legal framework for the sector as well as extending models based on public and private alliances for the sustainable provision of microcredit.
- To promote other complementary financial "microproducts", that encourage the clients to save at the same time.
- To introduce information management technology.
- To raise awareness among unemployed workers of the possibility of self-employment through subsidized capitalization of unemployment benefits and by means of microfinance.

116 There are some savings banks still running small programmes in their local areas such as Caixa Pollenca in Baleares or Caja Laboral in Pais Vasco.

United Kingdom[117]

1. Key Macroeconomic Data

Key indicator	Data source (EUROSTAT)
Population, total (millions; 2010):	62,026,962
Real GDP growth rate (%-change on previous year; 2010 AND 2011)	1.8% (2010) and 0.8% (2011)
GDP per capita (current EUR; 2010)	30,500
Unemployment rate (in %; 2010)	7,8%
Population below the national poverty line (defined as: 60% or less of the median household level; 2010)	22.9%
People at risk of poverty or social exclusion (2010; 1000 persons)	23.1%

2. Legal Framework for Microfinance and policy initiatives

Most MFIs (or community development finance institutions, CDFIs) are not banks, i.e. they cannot take deposits. CDFIs aim to serve geographic and demographic segments of the UK that are neglected by banks. They frequently lend beyond the microfinance threshold of 25,000 EUR. Only few CDFIs are dedicated to microfinance lending (loans below 25,000 EUR), and there is no explicit market segmentation.

There is no regulatory framework for microfinance in the UK. Setting up a CDFI is fairly simple, with no minimum financial requirements. Applicants need to pass a test to demonstrate good character ("fit for purpose"), and people convicted of fraud or similar financial crimes are usually excluded. Most CDFIs are not regulated by the Financial Services Authority (FSA), only those with a certain company structure. Regulation for these CDFIs is due to their choice of structure, rather than their status as CDFI. There were some loan guarantee schemes by the government in the past that sought to channel funds to the CDFI sector. An investment scheme (Community Investment Tax Relief, CITR) that gives tax breaks to individuals providing capital to CDFIs was renewed in the last budget, but it has limited take-up. There are moves underway to set up a nation-wide referral system between banks and CDFIs where clients rejected by mainstream banks are referred to CDFIs.

3. Microfinance Market Overview and Outcome in 2010-2011

Overview	
Number of survey participants:	20
Number of active clients:	4,496
Value of loans disbursed 2011 (in €):	11,612,944
Number of loans disbursed in 2011:	3,063
- to women	50%
- to rural clients	4%
- to clients below poverty line	68%
- to Startup enterprises	26%
- to ethnic minorities/ immigrants	3%
- for entrepreneurial / business purpose:	2,547
- to bankables	807
- to non-bankables	1,741
- for personal/ consumption purpose:	516
- to bankables	149
- to non-bankables	367

117 Author: Veronika Thiel, Independent Microfinance Consultant and Director of the Centre for Responsible Credit.

There are 66 CDFIs registered with the Community Development Finance Association. Not all of these are microfinance lenders, and one organisation, Fair Finance, one of the principle actors in microfinance in the UK, is not a member of the CDFA. As there is no market segmentation that separates microfinance from other lending, it is difficult to gage the size of the market. Relying on the responses received as part of this survey will give an insight into microfinance in the UK, but will nevertheless provide only a partial overview.

20 organisations replied, a response rate of 50%. These 20 organisations have a total of 4,496 clients, with a total 3,063 loans with a value of 11,612,944 EUR disbursed in 2011.

In terms of market development, the experts interviewed all agreed that there was an increase in demand as banks reduce their lending activities. However, there is no significant increase in funding, with few CDFIs able to raise capital from the market. Banks play no significant role in the sector. There are ad hoc partnerships between local bank branches and CDFIs, but they are rarely institutionalised – i.e. if a key person in the local bank branch leaves, the partnership has a high risk of failing. Recently, the CDFA has initiated a nation-wide referral scheme between banks and CDFIs which may change the situation drastically, with the potential of increasing CDFI client numbers. However, if there is no significant increase in the availability of capital for CDFIs, the impact may be limited.

4. Outreach (incl. target groups and best-selling products)

Generally, CDFIs seek to reach those clients who are not bankable (no or bad credit history, require extensive business support and training, reputational issues such as criminal conviction). Most CDFIs do not have a specific focus on a particular group, although there are some organisations focusing solely on women or ethnic minorities.

The overwhelming majority of loans (2,156) were for business lending purposes. 53% were women clients, and 80% of clients are below the poverty line. For both, business and personal loans, the majority of clients were unbankable (68% and 71% respectively). 11.5% of clients were rural, and 7% were ethnic minorities (NB: not all respondents provided data for rural and ethnic minority clients). In line with the general approach to lending, there is often only one loan product available, with a greater variation in loan size rather than structure. The main distinction is between consumer lending and business lending, with the majority of loans (83%) for business lending. Within business lending, there is a further distinction between start-up lending and lending to existing enterprises. Survey respondents stated that nearly 15% of loans were for start-up lending. One CDFI interviewed in-depth for this report stated its most popular product is a consumer loan product. The other CDFI stated that its start-up loan is the most frequently applied for.

5. Future Market Trends and Challenges

The experts interviewed for this report were unanimous in their view that banks are reducing lending, and interviewees projected an increased demand for CDFI lending. However, two expert cautioned that not all clients rejected by banks would be automatically microfinance clients – they would not be investment ready, so that an increase in demand should not be directly be seen as leading to a growth in the market.

The referral scheme (see above) currently under development was seen by two experts as the biggest opportunity to increase both client numbers as well as visibility of the sector. The banks' reluctance to lend was seen as an opportunity to increase the role of the microfinance sector.

Capital (or lack thereof) was seen a major challenge, and concordant with this sustainability of the sector. Another challenge was the lack of visibility and recognition of the sector nation-wide.

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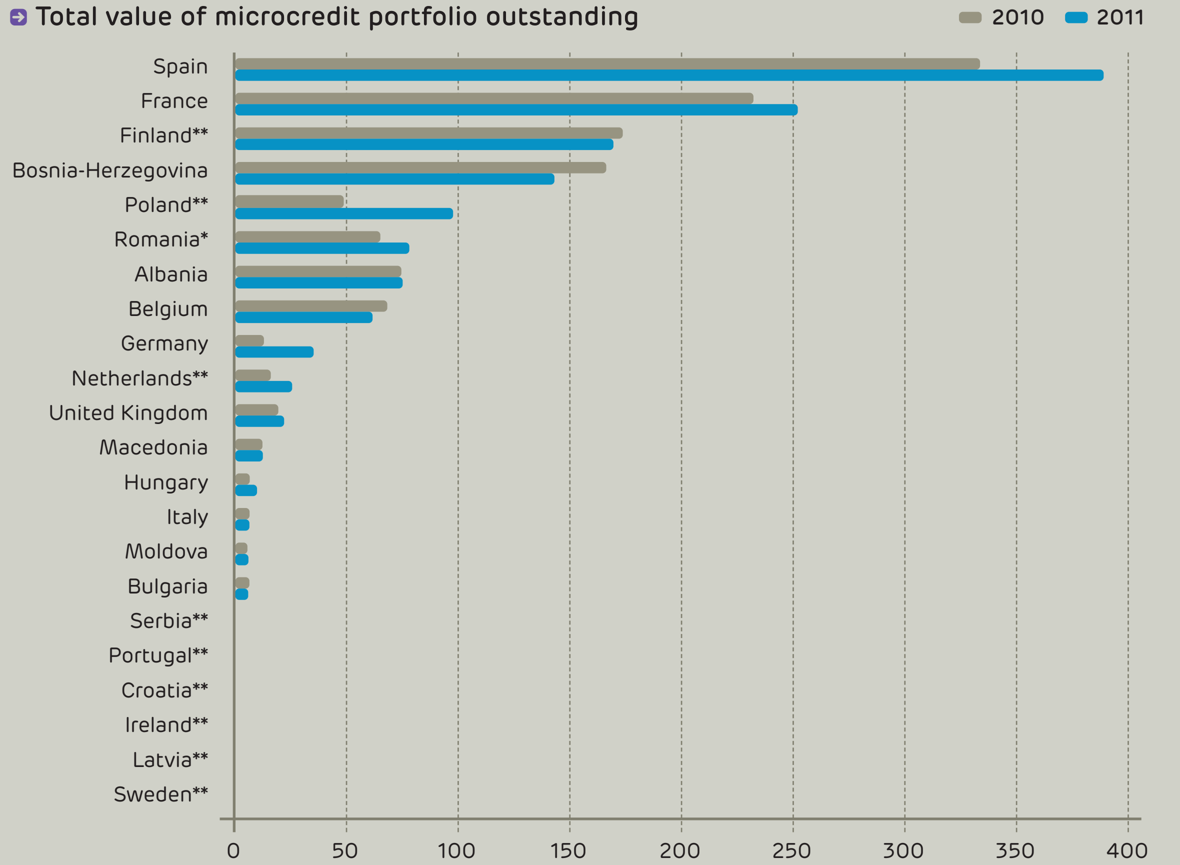
Appendix 10

Figure 33

Total value of microcredit portfolio outstanding



Note: N = 148; n 2010 = 89; n 2011 = 95; *Romania without UNCAR; **only one institution observed.

Table 8

Distribution by MFIs institutional type per country

Country	NGO or foundation	NBFI*	Microfinance association	CDFI**	Credit Union/ cooperative	Bank	Savings bank	Government body	Religious institution	Other
Albania	/	60%	/	/	20%	20%	/	/	/	/
Austria*	/	/	/	/	/	/	/	100%	/	/
Belgium	/	50%	50%	/	/	/	/	/	/	/
Bosnia and Herzegovina	63%	37%	/	/	/	/	/	/	/	/
Bulgaria	/	38%	/	/	62%	/	/	/	/	/
Croatia	/	/	/	/	100%	/	/	/	/	/
Finland*	/	100%	/	/	/	/	/	/	/	/
France	11%	11%	44%	0%	/	11%	11%	/	/	11%
Germany	3%	6%	39%	3%	3%	12%	/	/	/	33%
Hungary	89%	/	/	/	11%	/	/	/	/	/
Ireland*	100%	/	/	/	/	/	/	/	/	/
Italy	38%	15%	8%	/	8%	8%	/	/	15%	8%
Latvia*	/	/	/	/	/	100%	/	/	/	/
Lithuania*	/	100%	/	/	/	/	/	/	/	/
Macedonia	33%	/	/	/	33%	/	33%	/	/	/
Moldova	0%	100%	/	/	/	/	/	/	/	/
Netherlands*	100%	/	/	/	/	/	/	/	/	/
Norway*	/	/	/	/	/	/	100%	/	/	/
Poland*	/	/	/	/	/	100%	/	/	/	/
Portugal*	/	/	/	/	/	/	/	/	/	100%
Romania	/	89%	/	/	/	/	/	11%	/	/
Serbia*	/	100%	/	/	/	/	/	/	/	/
Spain	53%	/	8%	/	8%	8%	15%	8%	/	/
Sweden*	/	100%	/	/	/	/	/	/	/	/
United Kingdom	15%	/	/	80%	5%	/	/	/	/	/

Note: N = 148; n = 147; * only one institution observed

Table 9

Share of business activity per country dedicated to micro-lending (extended only)

Lending Model	less than 5%	5 – 25%	25 – 50%	50 – 75%	75 – 100%
Albania	/	/	/	/	100%
Belgium	/	50%	/	/	50%
Bosnia and Herzegovina*	/	/	/	/	100%
Bulgaria	/	/	/	/	100%
Croatia	/	/	/	/	100%
Finland*	/	100%	/	/	/
France	25%	/	/	/	75%
Germany	28%	17%	6%	11%	39%
Hungary	/	/	/	/	100%
Ireland*	/	/	/	/	100%
Italy	33%	/	33%	/	33%
Moldova*	/	/	/	100%	/
Netherlands*	/	/	/	100%	/
Norway*	100%	/	/	/	/
Portugal*	/	/	/	/	100%
Romania	/	14%	/	/	86%
Spain	25%	25%	/	/	50%
Sweden*	ND	ND	ND	ND	ND
United Kingdom	13%	/	13%	38%	38%
Total	**17%**	**12%**	**5%**	**12%**	**54%**

Note: Extended only; N = 69; n = 59; * = only one institution observed.

Table 10

Main product characteristics

Country	Current average loan term (in month)	Current annual interest rate (APR)
Albania	35	18%
Austria	60	4%
Belgium	14	7%
Bosnia and Herzegovina	19	24%
Bulgaria	29	15%
Croatia	40	11%
France	35	4%
Germany	32	7%
Hungary	51	7%
Ireland	36	9%
Italy	46	4%
Latvia	36	7%
Lithuania	48	6%
Macedonia	32	14%
Moldova	24	16%
Netherlands	52	10%
Norway	36	6%
Poland	46	12%
Romania	33	16%
Serbia	20	35%
Spain	38	7%
Sweden	24	8%
United Kingdom	37	14%
Total Average	35	11%

Note: N = 148; n (loan term) = 127; n (APR) = 122; no data for Finland and Portugal)

Table 11

Share of other products / financial services per country

Country	No other Services	Personal microloans	Debt counseling	Savings products	Insurance	Current / checking accounts	Mortages	Money transfer services	Other
Albania	25%	50%	25%	50%	25%	25%	25%	25%	/
Austria*	100%	/	/	/	/	/	/	/	/
Belgium	100%	/	/	/	/	/	/	/	/
Bosnia and Herzegovina	71%	14%	14%	/	/	/	/	/	/
Bulgaria	38%	50%	38%	25%	/	/	13%	/	/
Croatia	50%	50%	/	/	/	/	/	/	/
France	/	100%	/	/	33%	/	/	/	/
Germany	71%	7%	7%	14%	7%	7%	7%	/	7%
Hungary	67%	11%	11%	11%	22%	11%	11%	11%	/
Ireland*	/	/	100%	/	/	/	/	/	/
Italy	25%	50%	25%	/	13%	/	/	/	38%
Lithuania*	/	100%	/	/	/	/	/	/	/
Macedonia	/	33%	33%	67%	/	/	/	/	/
Moldova	50%	50%	/	/	/	/	/	/	/
Poland*	/	/	/	100%	100%	100%	/	/	/
Portugal*	100%	/	/	/	/	/	/	/	/
Romania	56%	44%	22%	33%	11%	/	/	/	11%
Serbia*	/	100%	100%	/	/	/	/	/	100%
Spain	/	71%	14%	43%	14%	29%	/	/	29%
Sweden*	/	/	100%	/	/	/	/	/	/
United Kingdom	69%	31%	15%	8%	/	/	/	/	15%
Total	47%	34%	18%	17%	9%	6%	4%	2%	11%

Note: N = 148; n = 99. As the respective question allows multiple answers, the percentages above will not add up to 100%; * = only one institution observed.

Table 12

Share of main activities other than micro-lending per country

Country	Business Development Service (BDS)	Entrepreneurship training	Financial education programmes	Traditional banking	Business incubator	Other
Albania	40%	/	40%	20%	/	0%
Austria*	/	/	/	/	/	100%
Belgium	50%	/	/	50%	/	/
Bosnia and Herzegovina	13%	13%	25%	0%	/	13%
Bulgaria	13%	/	/	13%	/	/
Croatia	50%	50%	50%	/	/	/
Finland*	/	/	/	/	/	100%
France	33%	44%	22%	22%	22%	33%
Germany	12%	6%	3%	12%	3%	48%
Hungary	67%	56%	44%	11%	56%	11%
Italy	38%	31%	38%	8%	31%	62%
Latvia	100%	100%	/	100%	/	/
Lithuania	/	/	/	/	/	100%
Macedonia	/	/	33%	67%	/	33%
Moldova	/	/	/	/	/	50%
Netherlands*	100%	/	/	/	/	100%
Norway*	/	/	/	100%	/	/
Poland*	/	/	/	/	/	/
Portugal*	/	/	/	/	/	/
Romania	11%	11%	/	/	11%	11%
Serbia*	/	/	/	/	/	100%
Spain	38%	54%	/	8%	15%	46%
Sweden*	100%	100%	/	/	/	/
United Kingdom	22%	11%	28%	/	/	33%
Average	**26%**	**20%**	**16%**	**11%**	**10%**	**34%**

Note: N = 148; n = 145: 49 out of 145 institutions active in micro-lending only. The respective question allows multiple answers, the percentages above will not add up to 100%; * = only one institution observed.

Table 13

Share of different missions per country

Country	Job creation	Microenterprise promotion	Small and Medium Enterprise (SME) promotion	Financial inclusion	Social inclusion and poverty reduction	Women empowerment	Minority empowerment	Other
Albania	100%	75%	75%	75%	75%	50%	25%	/
Austria*	100%	100%	/	100%	100%	100%	100%	/
Belgium	100%	100%	50%	50%	/	/	50%	/
Bosnia and Herzegovina	57%	57%	29%	43%	71%	29%	/	/
Bulgaria	88%	75%	50%	25%	38%	63%	63%	/
Croatia	100%	50%	100%	50%	50%	100%	100%	/
France	86%	57%	29%	86%	71%	43%	14%	/
Germany	60%	73%	80%	23%	13%	37%	30%	10%
Hungary	56%	100%	78%	11%	/	22%	/	/
Ireland*	100%	100%	100%	100%	/	100%	/	/
Italy	54%	38%	8%	38%	77%	23%	15%	15%
Latvia*	100%	100%	/	/	100%	/	/	/
Lithuania*	100%	100%	100%	100%	/	100%	/	/
Macedonia	67%	33%	33%	33%	100%	100%	100%	/
Moldova	50%	100%	100%	50%	50%	/	/	/
Netherlands*	100%	100%	100%	100%	/	100%	100%	/
Norway*	100%	/	/	100%	100%	/	100%	/
Poland*	100%	100%	100%	100%	/	/	/	/
Romania	78%	100%	100%	67%	56%	11%	11%	/
Serbia*	100%	/	/	100%	/	/	/	100%
Spain	58%	92%	8%	58%	42%	58%	58%	8%
Sweden*	100%	100%	/	/	100%	/	/	/
Uknited Kingdom	85%	45%	50%	80%	45%	40%	50%	/
Total average	**72%**	**69%**	**53%**	**49%**	**42%**	**39%**	**33%**	**5%**

Note: N = 148; n = 137; * = only one institution observed.

Table 14

Share of number of loans disbursed by target groups

Country	N	Number of loans disbursed in 2011
Albania	5	18 852
Austria	1	65
Belgium	2	460
Bosnia and Herzegovina	8	52 403
Bulgaria	8	1 437
Croatia	2	190
Finland	1	2 671
France	9	28 690
Germany	33	11 231
Hungary	9	414
Ireland	1	88
Italy	14	921
Latvia	1	215
Lithuania	1	1 028
Macedonia	3	7 021
Moldova	2	1 565
Netherlands	1	1 000
Norway	1	ND
Poland	1	23 732
Portugal	1	164
Romania*	9	10 983
Serbia	1	1 679
Spain	13	36 188
Sweden	1	1
United Kingdom	20	3 063
Total	**148**	**204 061**

Country	to women	Response rate	to rural client	Response rate	to clients below poverty line	Response rate	to startup enterprises	Response rate	to ethnic minorities / immigrants	Response rate
Albania	23%	60%	9%	40%	6%	40%	0%	40%	0%	40%
Austria	42%	100%	ND	0%	9%	100%	78%	100%	35%	100%
Belgium	47%	100%	0%	100%	0%	50%	78%	50%	0%	50%
Bosnia and Herzegovina	33%	50%	66%	50%	53%	50%	0%	50%	3%	38%
Bulgaria	50%	75%	41%	88%	3%	50%	5%	63%	8%	75%
Croatia	53%	50%	50%	50%	25%	50%	8%	50%	40%	50%
Finland	48%	100%	ND	0%	ND	0%	100%	100%	ND	0%
France	37%	44%	11%	33%	31%	22%	53%	56%	6%	22%
Germany	8%	52%	1%	30%	4%	36%	38%	55%	8%	52%
Hungary	9%	56%	38%	56%	0%	44%	21%	56%	1%	56%
Ireland	ND	0%	ND	0%	ND	0%	ND	0%	ND	0%
Italy	58%	79%	0%	57%	4%	64%	5%	79%	26%	71%
Latvia	ND	0%	ND	0%	ND	0%	ND	0%	ND	0%
Lithuania	0%	100%	0%	100%	0%	100%	16%	100%	0%	100%
Macedonia	51%	100%	29%	100%	1%	33%	0%	100%	29%	100%
Moldova	4%	100%	6%	100%	0%	0%	0%	0%	0%	50%
Netherlands	35%	100%	ND	0%	ND	0%	72%	100%	14%	100%
Norway	ND	0%	ND	0%	ND	0%	ND	0%	ND	0%
Poland	ND	0%	ND	0%	ND	0%	1%	100%	ND	0%
Portugal	51%	100%	ND	0%	ND	0%	100%	100%	9%	100%
Romania*	46%	78%	19%	78%	29%	22%	6%	67%	6%	11%
Serbia	52%	100%	19%	100%	9%	100%	13%	100%	19%	100%
Spain	0%	38%	0%	38%	0%	31%	12%	46%	13%	46%
Sweden	100%	100%	0%	100%	0%	100%	100%	100%	ND	0%
United Kingdom	50%	70%	4%	55%	68%	55%	26%	70%	3%	50%
Total	**38%**	**66%**	**17%**	**47%**	**13%**	**38%**	**34%**	**63%**	**12%**	**48%**

Note: N = 148; n (women) = 91; n (rural) = 73; n (below poverty line) = 61; n (startup) = 89; n (ethnic minorities) = 73; * without UNCAR; ** = only one institution observed.

Table 15

Percentage of clients on welfare and percentage of clients graduating to mainstream

Country	N	Percentage of clients on welfare		Percentage of clients graduating to mainstream finance	
		average	Response rate	average	Response rate
Albania	5	0%	40%	0%	40%
Austria	1	ND	0%	ND	0%
Belgium	2	100%	50%	0%	50%
Bosnia and Herzegovina	8	7%	50%	29%	50%
Bulgaria	8	5%	25%	7%	75%
Croatia	2	11%	50%	33%	50%
Finland	1	ND	0%	ND	0%
France	9	83%	22%	77%	44%
Germany	33	6%	39%	12%	39%
Hungary	9	0%	56%	6%	44%
Ireland	1	ND	0%	ND	0%
Italy	14	27%	50%	7%	43%
Latvia	1	ND	0%	70%	100%
Lithuania	1	0%	100%	0%	100%
Macedonia	3	0%	67%	50%	33%
Moldova	2	ND	0%	10%	50%
Netherlands	1	28%	100%	ND	0%
Norway	1	ND	0%	ND	0%
Poland	1	ND	0%	ND	0%
Portugal	1	ND	0%	ND	0%
Romania*	9	6%	22%	0%	11%
Serbia	1	10%	100%	19%	100%
Spain	13	60%	38%	10%	38%
Sweden	1	0%	100%	0%	100%
United Kingdom	20	24%	45%	3%	45%
Total	**148**	**22%**	**40%**	**18%**	**42%**

Note: N = 148; n (welfare) = 59; n (mainstream) = 62.

Table 16

Share of target groups by type of institution

Country	N	Value of loans disbursed	Number of loans disbursed	Response rate
Bank	10	365 462 072	59 554	50%
Community Development Financial Institution (CDFI)	17	10 038 417	2 691	71%
Credit Union / cooperative	14	21 444 517	8 417	79%
Government body	3	4 464 795	382	67%
Microfinance association	20	162 983 296	28 405	65%
NGO or Foundation	33	69 482 546	29 665	67%
Non-bank financial institution	29	95 868	36	83%
Religious institution	2	95 868	36	100%
Savings bank	5	28 740 825	5 590	40%
Other	14	136 907 573	9 433	79%
Total	**147**	**799 715 777**	**144 209**	**70%**

Country	to women	Response rate	to rural client	Response rate	to clients below poverty line	Response rate	to startup enterprises	Response rate	to ethnic minorities / immigrants	Response rate
Bank	ND	0%	ND	0%	ND	0%	8%	30%	8%	10%
Community Development Financial Institution (CDFI)	50%	76%	3%	59%	66%	59%	19%	76%	2%	53%
Credit Union / cooperative 1% 71%	14 3%	21 444 517 71%	8 417	79%	21%	79%	26%	79%	1%	71%
Government body	7%	33%	ND	0%	2%	33%	84%	67%	6%	33%
Microfinance association	37%	65%	11%	40%	32%	40%	52%	50%	8%	50%
NGO or Foundation	42%	58%	61%	52%	45%	42%	4%	58%	6%	55%
Non-bank financial institution	30%	76%	43%	69%	27%	38%	9%	62%	9%	41%
Religious institution	31%	100%	0%	100%	81%	100%	6%	100%	33%	100%
Savings bank	16%	20%	12%	20%	1%	20%	0%	20%	20%	20%
Other	10%	64%	0%	36%	3%	36%	42%	79%	4%	64%
Total	**27%**	**57%**	**19%**	**45%**	**29%**	**44%**	**22%**	**61%**	**10%**	**50%**

Note: N = 147; n (value & no. 2011) = 104; n (women) = 91; n (rural) = 74; n (below poverty line) = 62; n (startup) = 89; n (ethnic minorities) = 73; * without UNCAR; ** = only one institution observed.

Table 17

Knowledge of Code of Good Conduct for Microcredit Provision by country

Country	Yes	No	Country	Yes	No
Albania	33%	67%	Lithuania*	0%	100%
Austria*	100%	0%	Macedonia	67%	33%
Belgium	100%	0%	Moldova	100%	0%
Bosnia and Herzegovina	60%	40%	Netherlands*	100%	0%
Bulgaria	83%	17%	Norway*	ND	ND
Croatia	100%	0%	Poland*	100%	0%
Finland*	ND	ND	Portugal*	ND	ND
France	50%	50%	Romania	100%	0%
Germany	82%	18%	Serbia*	0%	100%
Hungary	100%	0%	Spain	50%	50%
Ireland*	100%	0%	Sweden*	ND	ND
Italy	36%	64%	United Kingdom	91%	9%
Latvia*	100%	0%	**Total**	**72%**	**28%**

Note: N = 148; n = 101; * = only one institution observed.

Table 18

Intention to apply Code of Good Conduct for Microcredit Provision

Country	Yes	No	Country	Yes	No
Albania	0%	100%	Lithuania	ND	ND
Austria	0%	100%	Macedonia	100%	0%
Belgium	50%	50%	Moldova	ND	ND
Bosnia and Herzegovina	100%	0%	Netherlands	100%	0%
Bulgaria	100%	0%	Norway	ND	ND
Croatia	50%	50%	Poland	100%	0%
Finland	ND	ND	Portugal	ND	ND
France	100%	0%	Romania	100%	0%
Germany	61%	39%	Serbia	ND	ND
Hungary	80%	20%	Spain	100%	0%
Ireland	100%	0%	Sweden	ND	ND
Italy	75%	25%	United Kingdom	60%	40%
Latvia	100%	0%	**Total**	**76%**	**24%**

Note: N = 148; n = 72.

Table 19

List of Survey Participants (N=154)

Country	Institution
Albania	ASC Union FAF – DC (formerly MAFF) fondiBESA NOA - Albania (formerly Opportunity Albania) ProCredit Bank Albania
Austria	Federal Ministry of Labour, Social Affairs and Consumer Protection (BMASK)
Belgium	Fonds de Partcipation microStart
Bosnia and Herzegovina	ADRIA mikro EKI Lider MI-BOSPO Tuzla MIKRA MIKROFIN MKF Sunrise Partner Mikrokreditna Organizacija
Bulgaria	DGRV (German Cooperative and Raiffeisen Confederation) Doveriye Mikrofond Nachala UNDP - JOBS Project USTOI JSC Popular Kasa - Kystendil Vzka Aetos
Croatia	DEMOS NOA
Finland	Finnvera
France	adie Afile 77 AIRDIE Crédit CoopératifThrough The GaleCrédit Municipal de Paris France Active France Initiative Group Caisse d'Epargne IMF Créa-Sol
Germany	Artel GmbH BerlinMicro AG Bremer Aufbau-Bank GmbH Confias Mikrokredit Institut GmbH Die Regionalen GmbH Dr. Wolfgang Krause & Joachim Tautz GbR GLS Bank Goldrausch e.V. Gondorf & Gondorf Stiftung Henzgen & Schommer Consult GmbH IHBD Limited Investitionsbank Brandenburg Investitionsbank Berlin Investitionsbank Sachsen-Anhalt Investitionsbank Schleswig-Holstein Kapitalinstitut Deutschland GmbH & Co. KG KfW Bankengruppe KIZ Finanzkontor Lawaetz Stiftung L-Bank Baden-Württemberg McFINANCE Mikrokredit Schleswig-Holstein GmbH MOBIL Mikrokredite GmbH MONEX MOZAIK innovative Beratung eG Objektiv Mikrofinanz AG pro-Unicus AG RariTas Regios eG Saarländische Investitionskreditbank AG Sächsische Aufbaubank sobanco AG Wirtschafts- und Infrastrukturbank Hessen
Hungary	Bács-Kiskun megye Baranya megye Békés megye Fejér Enterprise Agency HBMVK - Hajdú-Bihar megye Heves Megyei Vállalkozás- és Területfejlesztési Alapítvány Komárom – Esztergom Megyei Regionális Vállalkozásfejlesztési Alapítvány (KEM - HVK) Nógrád megye Pest megye PRIMOM

List of Survey Participants (N=154) (comes from page 91)

Country	Institution
	RVA - Székesfehérvár Vas megye Veszprém megye ZMVA - Zala megye ügyvezető igazgató
Ireland	First-Step Microfinance
Italy	Arcidiocesi di Agrigento Banca Popolare Etica Caritas Diocesi di Andria Caritas Diocesana di Gorizia Comune di Venezia Essere - fondo di aiuto sociale Fondazione Un Raggio di Luce Fondazione Pangea Onlus Fondazione Risorsa Donna Fondazione San Carlo ONLUS Fondazione Welfare Ambrosiano Mag2 Finance Micro Progress Onlus PerMicro s.p.a.
Latvia	Hipoteku bānka
Lithuania	INVEGA
Macedonia	FULM Savings House Horizonti Skopje Savings House Moznosti LLC Skopje
Moldova	Express Leasing Invest Credit
Netherlands, The	Qredits
Norway	Cultura Bank
Poland	FM Bank
Portugal	Associação Nacional de Direito ao Crédito (ANDC)
Romania	Agency for implementing Project and Programs for SMEs (AIPPIMM) VITAS IFN SA (formerly Express Finance IFN SA) OPPORTUNITY MICROCREDIT ROMANIA IFN SA Patria Credit (formerly CAPA Finance IFN) RoCredit IFN SA ROMCOM IFN SA S F Rurala Faer IFN SA S.C. De Microfinantare Aurora IFN SA UNCAR
Serbia	Micro Development LLC
Spain	Asociación de Comunidades Autofinanciadas (ACAF) AD Molinos Barcelona Activa Bilbao Bizkaia Kutxa (BBK) Colonya Caixa de Pollença Fundació CP'AC Fundación CIDEAL de Cooperación e Investigación Fundación Genus Fundación Privada Trinijove Fundación Tomillo MicroBank MITA ONG TransFormando
Sweden	Network for Entrepreneurs from Ethnic Minorities (NEEM)
United Kingdom	Aston Reinvestment Trust (ART) Black Country Reinvestment Society (BCRS) Bristol Enterprise Development Fund Business Finance Solutions Capitalise Business Support Derbyloans – Midlands Community Finance (MCF) dsl business finance Fair Finance First Enterprise Business Agency (FEBA) / Enterprise Loans East Midlands (ELEM) Foundation East Fredericks Foundation GLE oneLondon Innovative Finance - Hastings Trust Key Fund Yorkshire North London Enterprise Club Prince' Initiative for Mature Enterprise (PRIME) Prince's Trust Youth Business Trust Street UK The Enterprise Fund Ltd Women's Employment Enterprise and Training Unit (WEETU)

Design: Beltza

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